

Audit

Report



INSPECTOR GENERAL, DOD, OVERSIGHT OF THE NAVAL
AUDIT SERVICE AUDIT OF THE NAVY GENERAL FUND
FINANCIAL STATEMENTS FOR FY 1998

Report Number 99-092

March 1, 1999

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Office of the Inspector General
Department of Defense

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Acronyms

NAS

Naval Audit Service



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

March 1, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FY 1998 (Report No. 99-092)

We are providing this audit report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Naval Audit Service (NAS) disclaimer of Opinion on the Navy General Fund Financial Statements for Fiscal Year 1998, along with the NAS report, "Department of the Navy Principal Statements for Fiscal Year 1998: Report on Auditor's Opinion." An audit of the Navy General Fund Financial Statements is required by the "Chief Financial Officers Act of 1990," as amended by the "Federal Financial Management Act of 1994." Because this report contains no findings or recommendations, written comments are not required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Brian M. Flynn at (703) 604-9145 (DSN 664-9145)(e-mail bflynn@dodig.osd.mil), or Ms Linda A. Pierce at (216) 522-6091, extension 234 (DSN 580-6091)(e-mail lap@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-092
(Project No. 8FC-2030)

March 1, 1999

Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FY 1998

Executive Summary

Introduction. An audit of the Navy General Fund Financial Statements is required by Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We delegated the audit of the Navy General Fund Financial Statements for FY 1998 to the Naval Audit Service. This report provides our endorsement of the Naval Audit Service disclaimer of opinion on the Navy General Fund Financial Statements for FY 1998, along with the Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Year 1998: Report on Auditor's Opinion," February 10, 1999.

Audit Objective. The audit objective was to determine the accuracy and completeness of the Naval Audit Service audit of the Navy General Fund Financial Statements for Fiscal Year 1998. See Appendix A for a discussion of the audit Process.

Audit Results. The Naval Audit Service report, "Department of the Navy Principal Statements for Fiscal Year 1998: Report on Auditor's Opinion," February 10, 1999, stated that the auditors were unable to express an opinion on the Navy General Fund Financial Statements for FY 1998. We concur with the Naval Audit Service disclaimer of opinion; our endorsement of that disclaimer is at Exhibit 1. The Naval Audit Service report is at Exhibit 2.

Internal Control Structure and Compliance With Laws and Regulations. The Naval Audit Service identified issues involving internal controls and compliance with laws and regulations in the Navy. The Naval Audit Service is reporting those issues in separate reports.

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 Principal Statements for Fiscal Year 1998: Report on
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Appendix A. Audit Process

Scope and Methodology

Audit Work Performed. To fulfill our responsibilities under Public Law 101-576, the "Chief Financial Officers Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," we performed oversight of the independent audit conducted by the Naval Audit Service (NAS) of the Navy General Fund Financial Statements for FY 1998. We reviewed the NAS audit Approach and monitored audit progress at key points.

Reviewing the NAS Audit Approach. We used the "Federal Financial Statement Audit Manual," January 1993, issued by the President's Council on Integrity and Efficiency, and the "Financial Audit Manual," December 12, 1997, issued by the General Accounting Office, as the criteria for reviewing the NAS audit approach. We reviewed the notification letter, formulation of strategy, entity profile, general risk analysis, cycle memorandums, and audit programs. In addition, we also participated in NAS conferences on the Navy General Fund financial statements. These conferences covered the NAS planning and formulation of audit strategy and included presentations on issues that developed during the NAS work.

Monitoring Audit Progress. Through the DoD Financial Statement Executive Steering Committee, and an integrated line item oversight effort, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD Consolidated Financial Statements, including the supporting financial statements of major DoD Components. We also reviewed and commented on draft audit reports issued by the NAS, including the audit opinion report. We reviewed key work papers and summaries of NAS audit results and conclusions.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to the achievement of the following objectives and goals.

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established objectives and goals for performance improvement reform. This report pertains to achievement of the following functional area objectives and goals.

Financial Management Area. Objective: Strengthen internal controls.
Goal: Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Audit Period and Standards. We performed this financial statement audit from September 22, 1998, through March 1, 1999, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We used computer-processed data to conduct portions of the audit.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD audit community. Further details are available on request.

Summary of Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Account Office reports can be accessed over the Internet at [HTTP://www.gao.gov](http://www.gao.gov). Inspector General reports can be accessed over the Internet at [HTTP://www.dodig.osd.mil](http://www.dodig.osd.mil).

Appendix B. Report Distribution

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Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
 Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
 Relations, Committee on Government Reform

Exhibit 1. Inspector General, DoD Endorsement Memorandum



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

March 1, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 1998 Department of the
Navy General Fund Financial Statements (Project No 8FC-2030)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Naval Audit Service (NAS) the audit of the FY 1998 Navy General Fund Financial Statements. Summarized below are the NAS disclaimer of opinion on the FY 1998 Navy General Fund Financial Statements and the results of our review of the NAS audit. The information provided contains reasons for the NAS disclaimer and is based on previous versions of these financial statements. Some numbers may have changed, however, the concerns expressed by NAS also relate to the version of the financial statements contained herein. We endorse the disclaimer of opinion expressed by the NAS (Enclosure)

Disclaimer of Opinion. The NAS disclaimer of opinion on the FY 1998 Navy General Fund Financial Statements, dated March 1, 1999, states that the NAS was unable to express an opinion on the financial statements. We concur with the NAS disclaimer of opinion. In addition, the Department of the Navy did not provide a management representation letter, as of the date of the NAS disclaimer of opinion. The NAS was unable to express an opinion for the reasons summarized below

- The Department of the Navy still does not have transaction-driven, standard general accounting systems capable of accurately reporting the value of assets and liabilities, including the status of appropriated funds.
- Subsidiary ledgers, which are necessary for maintaining accurate financial records and providing audit trails, still did not exist.

Internal Controls. The NAS determined that internal controls did not ensure that the FY 1998 Navy General Fund Financial Statements contained no material misstatements. For example, the Department of the Navy did not implement controls over the matching of disbursements to obligations. Consequently, the Department of the Navy financial statements reported disbursements that were not correctly matched to obligations in the accounting records. The Department of the Navy and the Defense Finance and Accounting Service have recognized many of the financial reporting weaknesses and reported them in their FY 1998 Annual Statements of Assurance

Compliance With Laws and Regulations. The NAS also identified areas of noncompliance with laws and regulations, which will be discussed in more detail in a separate report. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended January 25, 1999, the Naval Audit Service disclosed that financial management

systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U S Government Standard General Ledger at the transaction level. For example, the Department of the Navy did not have integrated financial management systems from which to extract financial data for use in preparing financial statements and had to rely on a manual data call process that was error prone. As a result, significant quantities of military equipment were excluded from the Required Supplementary Stewardship Information. Details regarding the adequacy of internal controls and on compliance with laws and regulations will be discussed in a separate report.

Review of NAS Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work conducted by the Naval Audit Service, we reviewed the audit approach and planning, and monitored progress at key points. We also performed other procedures to determine the fairness and accuracy of the approach and conclusions.

We reviewed the NAS work on the FY 1998 Navy General Fund Financial Statements from March 16, 1998 to March 1, 1999, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the NAS disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosure*

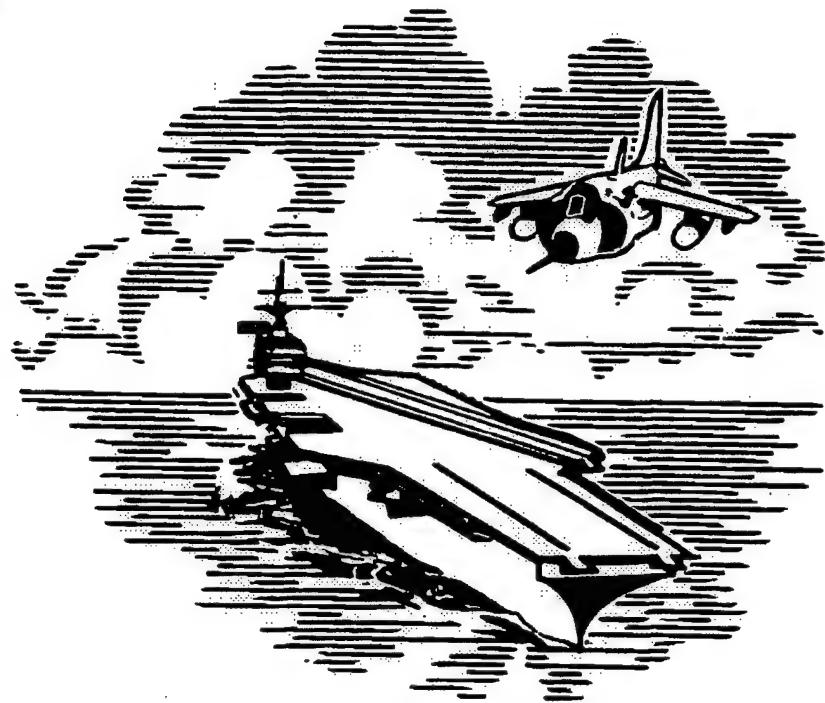
* The Enclosure is included in Exhibit 2, pages 1 and 2.

11111

Exhibit 2. Naval Audit Service Report



Audit Report



**Department of the Navy
Principal Statements for
Fiscal Year 1998:
Report on Auditor's Opinion**

024-99

10 February 1999

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To obtain additional copies of this report, please contact Nancy Embrey, as follows:

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Providing Suggestions for Future Audits

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<http://www.hq.navy.mil/navalaudit>



DEPARTMENT OF THE NAVY
AUDITOR GENERAL OF THE NAVY
5611 COLUMBIA PIKE
ROOM 506B, NASSIF BUILDING
FALLS CHURCH, VA 22041-5080

7547/98-0010
10 Feb 99

From: Auditor General of the Navy

Subj: **DEPARTMENT OF THE NAVY PRINCIPAL STATEMENTS FOR
FISCAL YEAR 1998: REPORT ON AUDITORS OPINION (024-99)**

Ref: (a) Public Law 101-576, Chief Financial Officers Act, "15 Nov 90, as amended
by Public Law 103-356, Government Management Reform Act of 1994,"
13 Oct 94
(b) SECNAV Instruction 7510.7E, Department of the Navy Internal Audit"

1. We attempted to audit the Department of the Navy Principal Statements for the fiscal year ended 30 September 1998 in accordance with reference (a). We are unable to give an opinion on the Principal Statements, primarily because of inadequate financial systems and incomplete and unauditible supporting records. We were unable to apply other audit procedures in these areas to satisfy ourselves as to the fairness and completeness of the data presented. In addition, our disclaimer of opinion and this report are based on Version 2 of the Department of the Navy Principal Statements. We did not receive Version 3 of the statements in time to review the final balances, and therefore could not review any adjustments/changes made in developing Version 3. We believe that our audit effort provides a reasonable basis for our conclusions.

2. The Report on Auditor's Opinion summarizes the reasons for our disclaimer of opinion on the financial statements. Section A describes how we performed our work and Section B provides a brief discussion of our results and conclusions. More detailed discussions of these results and conclusions, along with specific recommendations, are provided in separate reports, as listed in Section E of this report. These other reports include a report on Internal Controls and Compliance with Laws and Regulations.

3. Any request for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy, in accordance with reference (b).

4. We appreciate the cooperation and courtesies extended to our auditors.

DONALD OLIVEROS
By direction

Subj: **DEPARTMENT OF THE NAVY PRINCIPAL STATEMENTS FOR
FISCAL YEAR 1998: REPORT ON AUDITORS OPINION (024-99)**

Distribution:

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Report on Auditor's Opinion

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the Department of the Navy prepared the accompanying Principal Statements for the fiscal year ended 30 September 1998. In addition, the Government Management Reform Act significantly expanded the statutory audit requirements of the Inspectors General. On 10 May 1995, the Inspector General, Department of Defense, delegated responsibility to the Naval Audit Service for audit of the Department of the Navy Principal Statements for Fiscal Year 1996 and beyond. We were requested to audit Department of the Navy Principal Statements in accordance with generally accepted government auditing standards. Our auditing procedures included an evaluation of related internal controls and compliance with laws and regulations.

We are unable to give an opinion on the Department of the Navy Principal Statements for the fiscal year ended 30 September 1998. The primary reason for this disclaimer of opinion is that the Department of the Navy does not have transaction-driven standard general ledger accounting systems that can accurately report the value of assets and liabilities, including the status of funds appropriated. Thus, we cannot ascertain the reliability of the Principal Statements. The Required Supplementary Stewardship Information (including National Defense Property, Plant, and Equipment; Heritage Assets; and Stewardship Land) is not a required part of the basic financial statements, and we do not express an opinion on such information. However, we applied limited procedures to the stewardship statement prescribed by professional standards that raised doubts that we were unable to resolve regarding whether material modifications should be made to the information for it to conform with guidelines established by the Federal Accounting Standards Advisory Board and the Office of Management and Budget.

Financial data in the Overview and the Supplemental Financial and Management Information sections of the Department of the Navy Annual Financial Report was derived from the same sources as the Principal Statements and, therefore, may not be reliable. In addition, our disclaimer of opinion and this report are based on Version 2 of the Department of the Navy Principal Statements. We did not receive Version 3 of the statements in time to review the final balances and therefore could not review any adjustments/changes made in developing Version 3.

Internal controls did not ensure that the Principal Statements were free of material misstatements. As a result, the risk of material misstatement is high. Procedural and compliance problems also contributed to the lack of support for financial reporting. Accounting systems represented the foremost compliance problem since these systems did not meet the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, the Department of the Navy financial management systems do not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U. S. Government Standard General Ledger at the transaction level. The Department of the Navy and Defense Finance and Accounting

Service have recognized these weaknesses and reported them in their Fiscal Year 1998
Assurance Statements on Management Controls.

Luther Bragg

LUTHER BRAGG
By direction

10 February 1999

Section A

Introduction

Background

The Department of the Navy Annual Financial Report for the fiscal year ended 30 September 1998 includes General Fund accounts under the control of the Department of the Navy. General Fund accounts are used to record funds appropriated by Congress and financial transactions utilizing the funds. The Department of the Navy manages 24 General Fund accounts. These accounts are funded by either current year appropriations, multi-year appropriations, or no-year appropriations (appropriations that are available for incurring obligations until exhausted or until the purpose for which they were made available has been accomplished).

The Defense Finance and Accounting Service - Cleveland Center is responsible for preparing the Department of the Navy Annual Financial Report, including the Principal Statements. The Defense Finance and Accounting Service - Kansas City Center is responsible for providing the Cleveland Center with Marine Corps financial information that is consolidated with Navy financial data in developing the Department of the Navy financial statements. The Department of the Navy, with support from the Defense Finance and Accounting Service, is responsible for:

- Preparing the annual financial statements in conformity with Federal generally accepted accounting principles and Office of Management and Budget Bulletin 97-01, "Form and Content of Agency Financial Statements," 16 October 1996, as amended.
- Establishing and maintaining management controls and systems to provide reasonable assurance that the broad control objectives of the Federal Manager's Financial Integrity Act are met.
- Complying with applicable laws and regulations.

As required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, and as requested by the Office of Inspector General, Department of Defense, the Naval Audit Service is responsible for auditing the Department of the Navy Principal Statements and evaluating related internal controls and compliance with laws and regulations.

Objective

The audit objective addressed by this report was to determine whether the Department of the Navy Principal Statements fairly presented, in all material respects, the financial position and results of operation for Fiscal Year (FY) 1998 in accordance with Federal

Accounting Standards and Office of Management and Budget Bulletin No. 97-01, "Form and Content of Agency Financial Statements," 16 October 1996, as amended. Additional objectives are addressed in other reports.

Scope and Methodology

In May 1995, the Inspector General, Department of Defense delegated Department of the Navy financial statement audit responsibility to the Naval Audit Service for FY 1996 and beyond. Our review of the Department of the Navy FY 1998 Annual Financial Report focused on five key Principal Statements, including related footnotes and the Required Supplementary Stewardship Information. The five key statements are:

- Consolidated Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- Statement of Financing

The Department of the Navy financial statements account for all funds for which the Department is responsible except information relative to classified assets, programs, and operations excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. We focused our audit on the General Fund.

Our audit began on 16 March 1998 and was completed on 10 February 1999. We conducted reviews at the Defense Finance and Accounting Service - Cleveland Center and Defense Finance and Accounting Service - Kansas City Center, including their subordinate Operating Locations. We also conducted reviews at the offices of the Assistant Secretary of the Navy (Financial Management and Comptroller), major commands in the Navy and Marine Corps, and selected Navy and Marine Corps subordinate commands. A list of the activities visited or contacted is in Section D.

We conducted our work in accordance with generally accepted government auditing standards. Tests and procedures as deemed necessary were used to assess the reliability of the five FY 1998 statements listed above, including the adequacy of internal controls and compliance with laws and regulations (discussed in a separate report).

This report provides our disclaimer of opinion on the Department of the Navy Principal Statements for the fiscal year ended 30 September 1998. A separate report contains our conclusions on internal control and compliance with laws and regulations. Additional Naval Audit Service reports contain our conclusions on specific deficiencies. A list of those reports is in Section E. Section F provides the Principal Statements, Related Footnotes, Required Supplementary Stewardship Information, and Supplemental Financial and Management Section.

Section B

Results of Audit Work

The Department of the Navy Fiscal Year (FY) 1998 Principal Statements for the Annual Financial Report contained significant understatements and overstatements. The primary reason for these discrepancies was that transaction-driven accounting systems had not yet been developed for the Department of the Navy. Procedural and compliance problems also contributed to the lack of accurate financial reporting. Without the accounting systems, a manual data call process must be used to accumulate data for the dollar value reported as assets on the Consolidated Balance Sheet and the quantity of National Defense Property, Plant, and Equipment reported on the Required Supplementary Stewardship Information.

Defense Finance and Accounting Service actions taken have improved the financial statement preparation process. The Department of the Navy has also initiated actions to identify, evaluate, and make compliant non-financial feeder systems used in producing Department of the Navy Principal Statements. Details on improvement actions taken are in Section C. Significant matters noted during our audit are provided in the following paragraphs. Although correction of these discrepancies should improve financial reporting, these corrections alone could not ensure the accuracy or completeness of the balances reported in the individual accounts.

Operating Materials and Supplies

An estimated \$23 billion in Operating Materials and Supplies was not reported on the Department of the Navy FY 1998 Consolidated Balance Sheet. This included:

- \$9.4 billion onboard ships.
- \$10.7 billion of sponsor-owned material staged at various locations.
- \$2.7 billion of residual assets removed from ships and shore stations.
- \$112 million of Navy-owned material at U.S. Coast Guard inventory control points.
- \$65.5 million in Financial Inventory Report material.

Department of Defense and Department of the Navy personnel determined these assets were in the hands of an end-user and should not be reported as assets but expensed. We believe not reporting these assets on the Consolidated Balance Sheet misstates the value of assets owned by the Department of the Navy. This is a repeat issue from FY 1997. However, it has not been resolved by the Office of the Under Secretary of Defense (Comptroller) and materially affects the FY 1998 Principal Statements. In addition, about \$10.6 billion in Government Furnished Material was improperly expensed as General Property, Plant, and Equipment instead of being reported as Operating Materials and Supplies.

Contingent Liabilities

The Department of the Navy Contingent Liabilities account balance for environmental liabilities did not include current data as of 30 September 1998. Instead, data as of 31 March 1998 was used. This data improperly included FY 1998 costs (actual costs instead of contingent liabilities). Department of the Navy personnel said they used March 1998 data because they did not have September 1998 data in time to meet reporting deadlines. The personnel further stated that they inadvertently included FY 1998 costs and future years' estimates because they followed the prior year's format. As a result, the \$5.8 billion recorded in the Contingent Liabilities account for environmental cleanup was overstated by at least \$668.6 million. We were not provided supporting data in time to validate the remainder of the \$5.8 billion and, thus, cannot determine the reasonableness of the reported value. In addition, no dollar value was reported for hazardous waste and disposal costs as required by Federal Accounting Standards.

Statement of Net Cost

The Department of the Navy FY 1998 Statement of Net Cost does not meet the intent of the Chief Financial Officers Act of 1990 and Government Performance and Results Act of 1993. The Department of the Navy used Navy and Marine Corps as its only two suborganizations, and used appropriation groupings in lieu of specific Government Performance and Results Act programs. While not specifically prohibited, this type of reporting does not fulfill the intent of providing costs for specific programs based on performance areas. This occurred because the Department of the Navy does not have a system or controls in place to ensure that all costs are included in the statement and can be traced to transaction level detail. Also, no definition of cost as it pertains to data presented in the statement was developed. Therefore, we could not verify the accuracy of the \$73.4 billion reported for Net Cost of Operations for FY 1998; \$486.8 million in additional costs could not be assigned to an appropriation; and the cost data in the Statement of Net Cost was unreliable, incomplete, and not useful or meaningful.

Unliquidated Obligations

We determined that \$101.2 million in unliquidated obligations associated primarily with indefinite delivery contracts and basic ordering agreements were invalid. Obligations were determined to be invalid for several reasons. Contract price reductions recorded in the Mechanization of Contract Administration Services system were never recorded in the Standard Accounting and Reporting System. In addition, adjustments for closed contracts with residual unliquidated amounts (arising when total funds obligated exceeded total contract cost) were not properly recorded in the Standard Accounting and Reporting System. We noted that these invalid obligations were not detected because contract management personnel did not perform complete and timely reviews of contracts. Specifically, reviews of

individual contractual orders were deferred until the entire contract was completed and ready for closure.

We also found that unliquidated work request obligation balances valued at about \$70 million were invalid and deobligated by the responsible activities. We also identified unliquidated work request obligation balances valued at about \$200 million that may be invalid but were unresolved by the responsible activities. We determined that these unliquidated work request obligations were invalid because of: (1) lack of documentation to show a requirement or acceptance or performance of the work; (2) cancellation or completion of the work without deobligation of the unneeded funds; or (3) billings not posting into the Standard Accounting and Reporting System.

Disbursements

Footnote 23 of the Department of the Navy FY 1998 Principal Statements identified about \$7.4 billion of disbursements that were not correctly matched to obligations in the accounting records. Disbursements and obligations are generally matched by machine, and when disbursement transactions are downloaded in the Standard Accounting and Reporting System the system searches for a matching obligation. However, matching problems occurred because the functions of disbursing and accounting are separated, thereby allowing payments to be made without determining whether corresponding obligations existed. Unmatched disbursements generally occur when there is an error or omission in the disbursing transaction line of accounting that precludes matching an individual payment to the appropriate obligation transaction. In order to clear unmatched disbursements, accounting personnel must obtain detailed information sufficient to identify corresponding unliquidated obligation transactions in the accounting records. Without matching all in-transit and problem disbursements to the appropriate obligation in the accounting records, obligated balances reported on the Statement of Budgetary Resources cannot be verified at the transaction level.

Financial Statement Preparation

The Inspector General, Department of Defense reported that accounting systems and processes implemented by the Defense Finance and Accounting Service - Cleveland Center for compiling the FY 1998 Department of the Navy statements cannot adequately produce auditable financial statements. There were several issues in the area of adjustments for which there were significant problems in the Cleveland Center compilation of departmental reports supporting the FY 1998 General Fund financial statements. The Inspector General, Department of Defense indicated the Cleveland Center:

- Made adjustments to move data from budgetary accounts into proprietary accounts in order to balance the general ledger.

- Made monthly adjustments to budgetary general ledger accounts in order to “balance” budgetary reports.
- Posted defacto one-sided entries.

Section C

Actions Initiated to Meet the Chief Financial Officers Act Reporting Requirement

During Fiscal Year 1998, the Department of the Navy began a large effort to identify and evaluate non-financial feeder systems used in producing Department of the Navy Principal Statements. This effort included the establishment of 12 working groups responsible for identifying and evaluating non-financial systems used to feed data to the financial statement line accounts. These working groups were tasked to:

- Identify the Department of the Navy organizations responsible for the non-financial systems.
- Evaluate these systems for compliance with the "Blue Book" (a Defense Finance and Accounting Service guide to Federal requirements for financial management systems).
- Establish an action plan to bring noncompliant systems into compliance with the "Blue Book."
- Certify and document that the reporting processes for these non-financial systems are compliant.
- Identify and implement corrective actions, and report actions taken to the Office of the Secretary of Defense.

In addition, the Defense Finance and Accounting Service initiated the following actions to improve departmental financial reporting:

- In April 1998, the Defense Finance and Accounting Service - Cleveland Center began using the Standard Accounting and Reporting System - Financial and Departmental Reporting to accomplish departmental reporting functions.
- The Defense Finance and Accounting Service - Kansas City Center began using the Standard Accounting and Budgetary Reporting System No. 2 accounting system upgrade starting with Fiscal Year 1998 to accomplish its departmental accounting functions.

These and other ongoing initiatives lay the groundwork for improving financial management and reporting within the Department of the Navy. However, senior Department of the Navy leaders recognize that many of the initiatives will take years to complete.

Section D

List of Activities Visited or Contacted

- Department of the Treasury, Washington, DC
- Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC
- Assistant Secretary of the Navy (Research, Development, and Acquisition), Washington, DC
- Office of the Under Secretary of Defense (Comptroller), Washington, DC
- Chief of Naval Operations, Washington, DC
- Commandant of the Marine Corps, Washington, DC
- Chief of Naval Education and Training, Pensacola, FL
- Chief of Naval Reserves, New Orleans, LA
- Naval Air Systems Command, Patuxent River, MD
- Naval Facilities Engineering Command, Washington, DC
- Naval Sea Systems Command, Washington, DC
- Naval Supply Systems Command, Mechanicsburg, PA
- Space and Naval Warfare Systems Command, San Diego, CA
- Strategic Systems Programs Office, Washington, DC
- Atlantic Fleet Headquarters Support Activity, Norfolk, VA
- Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
- Commander in Chief, U.S. Naval Forces Europe, London, United Kingdom
- Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI
- Commander, Naval Air Force U.S. Atlantic Fleet, Norfolk, VA
- Commander, Naval Surface Force U.S. Pacific Fleet, San Diego, CA
- Commander, Operational Test and Evaluation Force, Norfolk, VA
- Commander, Submarine Force U.S. Pacific Fleet, Pearl Harbor, HI
- Defense Contract Management Command, Cleveland, OH
- Defense Contract Management Command, Ft. Belvoir, VA
- Defense Contract Management Command, Pittsburgh, PA
- Defense Contract Management Command, San Diego, CA
- Defense Contract Management Command, Santa Ana, CA
- Defense Contract Management Command, Van Nuys, CA
- Defense Contract Management District East, Boston, MA
- Defense Contract Management District West, El Segundo, CA
- Defense Finance and Accounting Service - Cleveland Center, Cleveland, OH
- Defense Finance and Accounting Service - Columbus Center, Columbus, OH
- Defense Finance and Accounting Service - Headquarters, Washington, DC
- Defense Finance and Accounting Service - Kansas City Center, Kansas City, MO

- Defense Finance and Accounting Service Operating Location, Charleston, SC
- Defense Finance and Accounting Service Operating Location, Honolulu, HI
- Defense Finance and Accounting Service Operating Location, Norfolk, VA
- Defense Finance and Accounting Service Operating Location, Oakland, CA
- Defense Finance and Accounting Service Operating Location, Pensacola, FL
- Defense Finance and Accounting Service Operating Location, San Diego, CA
- Defense Logistics Agency, Alexandria, VA
- Fleet and Industrial Supply Center, Pearl Harbor, HI
- Fleet and Industrial Supply Center, Bremerton, WA
- Fleet and Industrial Supply Center, Jacksonville, FL
- Fleet and Industrial Supply Center, Norfolk, VA
- Fleet and Industrial Supply Center, Oakland, CA
- Fleet and Industrial Supply Center, San Diego, CA
- Fleet Anti-Submarine Warfare Training Center, San Diego, CA
- Fleet Combat Training Center Atlantic, Virginia Beach, VA
- Fleet Combat Training Center Pacific, San Diego, CA
- Fleet Technical Support Center, Norfolk, VA
- Headquarters, United States Coast Guard, Washington, DC
- Marine Corps Air Facility, Quantico, VA
- Marine Corps Air Station, Beaufort, SC
- Marine Corps Air Station, Cherry Point, NC
- Marine Corps Air Station, El Toro, Santa Ana, CA
- Marine Corps Air Station, New River, Jacksonville, NC
- Marine Corps Air Station, Tustin, CA
- Marine Corps Base, Camp Pendleton, CA
- Marine Corps Base Hawaii, Kaneohe Bay, HI
- Marine Corps Combat and Development Command, Quantico, VA
- Marine Corps Recruiting Depot, San Diego, CA
- Maritime Administration, James River, VA
- Military Sealift Command, Washington, DC
- National Navy Medical Center, Bethesda, MD
- Naval Air Maintenance Training Group Detachment, Miramar, San Diego, CA
- Naval Air Station, Alameda, CA
- Naval Air Station, Barbers Point, HI
- Naval Air Station, Cecil Field, FL
- Naval Air Station, Corpus Christi, TX
- Naval Air Station, Jacksonville, FL
- Naval Air Station, Joint Reserve Base, Fort Worth, TX
- Naval Air Station, Key West, FL
- Naval Air Station, Kingsville, TX
- Naval Air Station, Lemoore, CA
- Naval Air Station, Memphis, Millington, TN
- Naval Air Station, Meridian, MS

- Naval Air Station, Miramar, San Diego, CA
- Naval Air Station, New Orleans, LA
- Naval Air Station, Norfolk, VA
- Naval Air Station, North Island, San Diego, CA
- Naval Air Station, Oceana, Virginia Beach, VA
- Naval Air Station, Patuxent River, MD
- Naval Air Station, Pensacola, FL
- Naval Air Station, Whidbey Island, Oak Harbor, WA
- Naval Air Station, Whiting Field, FL
- Naval Air Warfare Center Aircraft Division Annex, Key West, FL
- Naval Air Warfare Center Training Systems Division, Orlando, FL
- Naval Air Warfare Center Weapons Division, China Lake, CA
- Naval Air Warfare Center Weapons Division, Point Mugu, CA
- Naval Air Weapons Station, China Lake, CA
- Naval Amphibious Base, Little Creek, Virginia Beach, VA
- Naval Aviation Depot, Cherry Point, NC
- Naval Base, Norfolk, VA
- Naval Base, San Diego, CA
- Naval Computer and Telecommunications Station, San Diego Detachment, Stockton, CA
- Naval Computer and Telecommunications Area Master Station Atlantic, Norfolk, VA
- Naval Computer and Telecommunications Command, Washington, DC
- Naval Construction Battalion Center, Port Hueneme, CA
- Naval Criminal Investigative Service, Washington, DC
- Naval District Washington, Washington Navy Yard, Washington, DC
- Naval Facilities Engineering Command Atlantic Division, Norfolk, VA
- Naval Facilities Engineering Command Engineering Field Activity, San Bruno, CA
- Naval Facilities Engineering Command Engineering Field Detachment, San Diego, CA
- Naval Facilities Engineering Command Engineering Field Division, Norfolk, VA
- Naval Facilities Engineering Command Pacific Division, Pearl Harbor, HI
- Naval Facilities Engineering Command Southern Division, Charleston, SC
- Naval Facilities Engineering Command Southwest Division, San Diego, CA
- Naval Facility Engineering Service Center, Port Hueneme, CA
- Naval Facility, Centerville Beach, Ferndale, CA
- Naval Historical Center, Washington, DC
- Naval Hospital, Beaufort, SC
- Naval Hospital, Cherry Point, NC
- Naval Hospital, Corpus Christi, TX
- Naval Hospital, Jacksonville, FL
- Naval Hospital, Pensacola, FL
- Naval Inactive Ship Maintenance Facility, Pearl Harbor, HI
- Naval Inactive Ship Maintenance Facility, Philadelphia, PA
- Naval Inactive Ship Maintenance Facility, Portsmouth, VA

- Naval Intermediate Maintenance Facility, Pearl Harbor, HI
- Naval Inventory Control Point, Philadelphia, PA
(offices in Philadelphia, PA, and Mechanicsburg, PA)
- Naval Medical Clinic, Key West, FL
- Naval Medical Clinic, Pearl Harbor, HI
- Naval Medical Clinic, San Diego, CA
- Naval Postgraduate School, Monterey, CA
- Naval Research Laboratory, Washington, DC
- Naval Reserve Center, Everett, WA
- Naval Reserve Readiness Center, Baltimore, MD
- Naval Satellite Operations Center, Point Mugu, CA
- Naval Sea Logistics Center, Mechanicsburg, PA
- Naval Sea Systems Command Detachment Naval Inactive Ship Maintenance Facility, Waipahu, HI
- Naval Shipyard, Mare Island, Vallejo, CA
- Naval Shipyard, Norfolk, VA
- Naval Shipyard, Puget Sound, Bremerton, WA
- Naval Space Command, Dahlgren, VA
- Naval Station Caretaker Site Office, Long Beach, CA
- Naval Station, Everett, WA
- Naval Station, Ingleside, TX
- Naval Station, Mayport, FL
- Naval Station, New York, Brooklyn, NY
- Naval Station, Norfolk, VA
- Naval Station, Pearl Harbor, HI
- Naval Station, San Diego, CA
- Naval Submarine Base, Bangor, WA
- Naval Submarine Base, Kings Bay, GA
- Naval Submarine Base, New London, Groton, CT
- Naval Submarine Base, Pearl Harbor, HI
- Naval Submarine Base, San Diego, CA
- Naval Submarine School, Groton, CT
- Naval Surface Warfare Center Coastal Systems Station, Panama City, FL
- Naval Surface Warfare Center, Crane Division, Crane, IN
- Naval Technical Training Center, Corry Station, Pensacola, FL
- Naval Training Center, Orlando, FL
- Naval Training Center, San Diego, CA
- Naval Undersea Warfare Center Division, Keyport, WA
- Naval Undersea Warfare Center Division, Newport, RI
- Naval War College, Newport, RI
- Naval Weapons Station, Earle, Colts Neck, NJ
- Naval Weapons Station, Charleston, SC
- Naval Weapons Station, Concord, CA

- Naval Weapons Station, Seal Beach, CA
- Navy Fleet Material Support Office, Mechanicsburg, PA
- Navy Public Works Center, Great Lakes, IL
- Navy Public Works Center, Jacksonville, FL
- Navy Public Works Center, Norfolk, VA
- Navy Public Works Center, Pensacola, FL
- Navy Public Works Center, San Diego, CA
- Navy Public Works Center, Washington, DC
- Navy Transportation Support Center, Norfolk, VA
- Office of Naval Research, Arlington, VA
- Pacific Missile Range Facility, Hawaii Area, Barking Sands, Kekaha, HI
- Service School Command, Great Lakes, IL
- Shore Intermediate Maintenance Activity, Naval Station, San Diego, CA
- Space and Naval Warfare Center, San Diego, CA
- Strategic Weapons Facility Atlantic, Kings Bay, GA
- Strategic Weapons Facility Pacific, Bangor, Silverdale, WA
- Supervisor of Shipbuilding, Conversion, and Repair, Bath, ME
- Supervisor of Shipbuilding, Conversion, and Repair, Everett, WA
- Supervisor of Shipbuilding, Conversion, and Repair, Groton, CT
- Supervisor of Shipbuilding, Conversion, and Repair, Newport News, VA
- Supervisor of Shipbuilding, Conversion, and Repair, San Diego, CA
- Trident Refit Facility, Bangor, Silverdale, WA
- Trident Refit Facility, Kings Bay, GA
- Trident Training Facility, Bangor, Silverdale, WA
- Trident Training Facility, Kings Bay, GA
- U.S. Fleet and Industrial Supply Center Detachment, Yokosuka, Japan
- U.S. Marine Corps Air Station, Iwakuni, Japan
- U.S. Marine Corps Base, Camp Butler, Okinawa, Japan
- U.S. Naval Air Facility, Misawa, Japan
- U.S. Naval Air Station, Keflavik, Iceland
- U.S. Naval Air Station, Sigonella, Sicily, Italy
- U.S. Naval Hospital, Rota, Spain
- U.S. Naval Security Group Activity, Rota, Spain
- U.S. Naval Station, Guantanamo Bay, Cuba
- U.S. Naval Station, La Maddalena, Sardinia, Italy
- U.S. Naval Station, Panama Canal, Rodman, Panama
- U.S. Naval Station, Rota, Spain
- U.S. Naval Support Activity, Naples, Italy
- U.S. Naval Support Office, La Maddalena, Sardinia, Italy
- U.S. Naval Support Office, Naples, Italy

Section E

List of Areas Covered by Other Financial Audit Reports

Accounts Receivable

Classes 1 and 2 Plant Property

Classes 3 and 4 Plant Property

Contingent Liabilities

Deferred Maintenance - Real Property

Fund Balance with Treasury

Internal Controls and Compliance with
Laws and Regulations

Required Supplementary Stewardship Information

Selected Payments and Collections

Statement of Budgetary Resources

Statement of Net Cost

Section F

Department of the Navy

Fiscal Year 1998 Principal Statements

and Related Information

This section consists of portions of the Department of the Navy Annual Financial Report. It includes the Principal Statements, Related Footnotes, Required Supplementary Stewardship Information, and Supplemental Financial and Management Information.

Principal Statements

Department of Defense
Department of the Navy
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
(in Dollars and Cents)

	<u>1998</u>
ASSETS	
1. Entity Assets:	
A. Intragovernmental	
1. Fund Balance with Treasury (Note 2)	\$58,395,185,371.79
2. Investments, Net (Note 4)	9,758,652.61
3. Accounts Receivable, Net (Note 5)	2,212,756,677.38
4. Other Assets (Note 5)	
B. Total Intragovernmental	<u>60,617,700,701.78</u>
C. Investments, Net (Note 4)	2,525,847,679.00
D. Accounts Receivable, Net (Note 5)	
E. Loans Receivable and Related Foreclosed Property, Net (Note 7)	8,668,288.58
F. Cash and Other Monetary Assets (Note 3)	42,199.00
G. Inventory and Related Property, Net (Note 8)	38,139,353,490.21
H. General Property, Plant and Equipment (Note 9)	
I. Stewardship Assets (National Defense PP&E,etc.)	See Stewardship Statement
J. Other Assets (Note 6)	2,936,266,822.24
K. Total Entity Assets	<u>104,227,879,180.81</u>
2. Non-Entity Assets:	
A. Intragovernmental	
1. Fund Balance with Treasury (Note 2)	(151,543,271.97)
2. Accounts Receivable, Net (Note 5)	367,686,749.00
3. Other Assets (Note 6)	
B. Total Intragovernmental	<u>216,143,477.03</u>
C. Accounts Receivable, Net (Note 5)	1,027,139.56
D. Cash and Other Monetary Assets (Note 3)	131,937,547.23
E. Other Assets (Note 6)	(45,322.70)
F. Total Non-Entity Assets	<u>\$349,062,841.12</u>
3. Total Assets	<u>\$104,576,942,021.93</u>

The accompanying notes are an integral part of these statements.

Department of Defense
 Department of the Navy
CONSOLIDATED BALANCE SHEET
As of September 30, 1998
 (in Dollars and Cents)

	<u>1998</u>
LIABILITIES	
4. Liabilities Covered by Budgetary Resources:	
A. Intragovernmental	
1. Accounts Payable	(\$327,226,319.27)
2. Environmental Cleanup (Note 11)	
3. Debt (Note 10)	
4. Other Intragovernmental Liabilities (Notes 11 and 12)	333,101,448.37
B. Total Intragovernmental	<u>\$5,875,129.10</u>
C. Accounts Payable	(3,160,315,588.97)
D. Liabilities for Loan Guarantees	
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)	
F. Environmental Cleanup (Note 11)	1,382,434,886.49
G. Other Liabilities (Notes 11 and 12)	
H. Total Liabilities Covered by Budgetary Resources:	<u>(\$1,772,005,573.38)</u>
5. Liabilities Not Covered by Budgetary Resources:	
A. Intragovernmental	82,364,457.74
1. Accounts Payable	
2. Debt (Note 10)	
3. Environmental Cleanup (Note 11)	40,775,734.57
4. Other Liabilities (Notes 11 and 12)	
B. Total Intragovernmental	<u>123,140,192.31</u>
C. Accounts Payable	(38,388,501.94)
D. Debt (Note 10)	
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)	1,213,674,000.00
F. Environmental Cleanup (Note 11)	5,843,100,000.00
G. Other Governmental Liabilities (Notes 11 and 12)	3,437,450,097.83
H. Total Liabilities Not Covered by Budgetary Resources	<u>\$10,578,975,788.20</u>
6. Total Liabilities	<u>\$8,806,970,214.82</u>
NET POSITION	
7. Unexpended Appropriations (Note 14)	\$66,232,768,705.42
8. Cumulative Results in Operations	<u>29,537,203,101.69</u>
9. Total Net Postion	<u>\$95,769,971,807.11</u>
10. Total Liabilities and Net Position	<u>\$104,576,942,021.93</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
STATEMENT OF NET COST
For the period ending September 30, 1998
(in Dollars and Cents)

1998

1. Program Costs	
A. Intragovernmental	\$4,702,234,144.01
B. With the Public	72,382,285,206.06
C. Total Program Cost	<u>\$77,084,519,350.07</u>
D. Less Earned Revenues	(4,131,962,315.69)
E. Net Program Costs	<u>\$72,952,557,034.38</u>
2. Costs Not Assigned to Programs	486,763,575.93
3. Less Earned Revenues Not Attributable to Programs	
4. Deferred Maintenance (Note 17)	
5. Net Cost of Operations	<u>\$73,439,320,610.31</u>

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 For the period ending September 30, 1998
 (in Dollars and Cents)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>General Fund Consolidated Totals</u>
1. PROGRAM COSTS:					
A. Operations and Maintenance:					
1. Intragovernmental	\$3,200,365,526.68	\$1,841,832,948.13	\$5,042,198,474.81	\$859,165,000.00	\$4,183,033,474.81
2. With the Public	19,181,023,411.10	1,279,398,649.31	20,460,422,060.41		20,460,422,060.41
3. Total Program Cost	22,381,388,937.78	3,121,231,597.44	25,502,620,535.22	859,165,000.00	24,643,455,535.22
4. Less Earned Revenues	(3,443,333,785.82)	(614,388,261.99)	(4,057,722,047.81)	(859,165,000.00)	(3,198,557,047.81)
5. Net Program Costs	<u>18,938,055,151.96</u>	<u>2,506,843,335.45</u>	<u>21,444,898,487.41</u>	<u>0.00</u>	<u>21,444,898,487.41</u>
B. Military Personnel:					
1. Intragovernmental	\$92,596,000.00	\$196,568,385.77	\$289,164,385.77	\$212,000.00	\$288,952,385.77
2. With the Public	18,305,645,834.12	6,307,683,006.68	24,613,328,840.80		24,613,328,840.80
3. Total Program Cost	18,398,241,834.12	6,504,251,392.45	24,902,493,226.57	212,000.00	24,902,281,226.57
4. Less Earned Revenues	(276,957,907.94)	(38,799,857.81)	(315,757,765.75)	(212,000.00)	(315,545,765.75)
5. Net Program Costs	<u>18,121,283,926.18</u>	<u>6,465,451,534.64</u>	<u>24,586,735,460.82</u>	<u>0.00</u>	<u>24,586,735,460.82</u>
C. Procurement:					
1. Intragovernmental	\$661,525,000.00	(\$171,239,189.89)	\$490,285,810.11	\$436,706,000.00	\$53,579,810.11
2. With the Public	17,636,206,422.44	(531,648,329.65)	17,104,558,092.79		17,104,558,092.79
3. Total Program Cost	18,297,731,422.44	(702,887,519.54)	17,594,843,902.90	436,706,000.00	\$17,158,137,902.90
4. Less Earned Revenues	(876,493,512.40)	(5,679,865.00)	(882,173,377.40)	(436,706,000.00)	(445,467,377.40)
5. Net Program Costs	<u>17,421,237,910.04</u>	<u>(708,567,384.54)</u>	<u>16,712,670,525.50</u>	<u>0.00</u>	<u>\$16,712,670,525.50</u>

Additional information included in Note 16.
 The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
 Department of the Navy
 CONSOLIDATING STATEMENT OF NET COST
 For the period ending September 30, 1998
 (in Dollars and Cents)

Department of Defense
 Department of the Navy
 CONSOLIDATING STATEMENT OF NET COST

For the period ending September 30, 1998

(in Dollars and Cents)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>Consolidated Totals</u>
D. Research, Development, Test & Evaluation:					
1. Intragovernmental	(\$204,857,000.00)	\$0.00	(\$204,857,000.00)	\$47,439,000.00	(\$252,296,000.00)
2. With the Public	8,133,365,881.00		8,133,365,881.00		8,133,365,881.00
3. Total Program Cost	7,928,508,881.00	0.00	7,928,508,881.00	47,439,000.00	\$7,881,069,881.00
4. Less Earned Revenues	201,594,152.00		201,594,152.00	(47,439,000.00)	249,033,152.00
5. Net Program Costs	8,130,103,033.00	0.00	8,130,103,033.00	0.00	\$8,130,103,033.00
E. Military Construction:					
1. Intragovernmental	\$319,196,000.00	\$0.00	\$319,196,000.00	\$0.00	\$319,196,000.00
2. With the Public	1,485,358,292.00		1,485,358,292.00		1,485,358,292.00
3. Total Program Cost	1,804,554,292.00	0.00	1,804,554,292.00	0.00	\$1,804,554,292.00
4. Less Earned Revenues	(399,264,283.00)		(399,264,283.00)		(399,264,283.00)
5. Net Program Costs	1,405,290,009.00	0.00	1,405,290,009.00	0.00	\$1,405,290,009.00
F. Other Programs:					
1. Intragovernmental	\$0.00	\$109,768,473.32	\$109,768,473.32	\$0.00	\$109,768,473.32
2. With the Public	444,807,546.84	140,444,492.22	585,252,039.06		585,252,039.06
3. Total Program Cost	444,807,546.84	250,212,965.54	695,020,512.38	0.00	\$695,020,512.38
4. Less Earned Revenues	(20,072,026.82)	(2,088,966.91)	(22,160,993.73)		(22,160,993.73)
5. Net Program Costs	424,735,520.02	248,123,998.63	672,859,518.65	0.00	\$672,859,518.65

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
For the period ending September 30, 1998
(in Dollars and Cents)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>Consolidated Totals</u>
G. Total Program Costs					
1. Intragovernmental	\$4,068,825,526.68	\$1,976,930,617.33	\$6,045,756,144.01	\$1,343,522,000.00	\$4,702,234,144.01
2. With the Public	\$65,186,407,387.50	\$7,195,877,818.56	72,382,285,206.06		72,382,285,206.06
3. Total Program Cost	69,255,232,914.18	9,172,808,435.89	78,428,041,350.07	1,343,522,000.00	\$77,084,519,350.07
4. Less Earned Revenues	(\$4,814,527,363.98)	(\$660,956,951.71)	(5,475,484,315.69)	(\$1,343,522,000.00)	(4,131,962,315.69)
5. Net Program Costs	64,440,705,550.20	8,511,851,484.18	72,952,557,034.38	0.00	\$72,952,557,034.38
2. Costs not assigned to Programs	486,763,575.93		486,763,575.93		486,763,575.93
3. Less: Earned Revenues not Attributable to Programs			0.00		
4. Deferred Maintenance (Note 17)					
5. Net Cost of Operations	\$64,927,469,126.13	\$8,511,851,484.18	\$73,439,320,610.31	\$0.00	\$73,439,320,610.31

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

*Defense Logistics Agency – Defense Working
Capital Fund*

Principal Statements

Department of Defense

Department of the Navy

STATEMENT OF CHANGES IN NET POSITION

For the period ending September 30, 1998

(in Dollars and Cents)

1998

1. Net Cost of Operations	\$73,439,320,610.31
2. Financing Sources (Other than Exchange Revenues	
A. Appropriations Used	72,365,339,406.74
B. Taxes (and Other Non-exchange Revenue)	8,890,288.59
C. Donations (Non-exchange Revenue)	705,147,455.78
D. Imputed Financing	33,692,598.00
E. Transfers-In	
F. Transfers-Out	(348,343.97)
3. Net Results of Operations (Line 2 less Line 1)	(326,599,205.17)
4. Prior Period Adjustments (Note 18)	<u>(350,698,790,127.87)</u>
5. Net Change in Cumulative Results of Operations	(351,025,389,333.04)
6. Increase (Decrease) in Unexpended Appropriations	<u>5,267,604,486.70</u>
7. Change in Net Position	(345,757,784,846.34)
8. Net Position - Beginning of the Period	<u>441,527,756,653.45</u>
9. Net Position - End of the Period	<u>\$95,769,971,807.11</u>

Additional Information included in Note 18.

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Department of the Navy
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the period ending September 30, 1998
(in Dollars and Cents)**

	<u>Navy</u>	<u>Marine Corps</u>	<u>Combined Totals</u>	<u>Intra-agency Eliminations</u>	<u>General Fund</u>	<u>Consolidated Totals</u>
1. Net Cost of Operations	\$64,927,469,126.13	\$8,511,851,484.18	\$73,439,320,610.31			\$73,439,320,610.31
2. Financing Sources (Other than Exchange Revenues	63,790,624,920.05	8,574,714,486.69	\$72,365,339,406.74			\$72,365,339,406.74
A. Appropriations Used						
B. Taxes (and Other Non-exchange Revenue)	8,890,288.59		\$8,890,288.59			\$8,890,288.59
C. Donations (Non-exchange Revenue)	486,763,575.93	218,383,879.85	\$705,147,455.78			\$705,147,455.78
D. Imputed Financing						
E. Transfers-In						
F. Transfers-Out	(348,343.97)	33,692,598.00	\$33,692,598.00	(\$348,343.97)		(\$348,343.97)
3. Net Results of Operations (Line 1 less Line 2)	(\$641,538,6655.53)	\$314,939,480.36	(\$326,599,205.17)			(\$326,599,205.17)
4. Prior Period Adjustments (Note 18)	(336,771,041,244.26)	(13,927,748,883.61)	(350,698,790,127.87)			(\$350,698,790,127.87)
5. Net Change in Cumulative Results of Operations	(337,412,579,929.79)	(13,612,809,403.25)	(351,025,389,333.04)			(\$351,025,389,333.04)
6. Increase (Decrease) in Unexpended Appropriations	3,992,028,767.95	1,275,575,718.75	5,267,604,486.70			\$5,267,604,486.70
7. Change in Net Position	(333,420,551,161.84)	(12,337,233,684.50)	(345,757,784,846.34)			(\$345,757,784,846.34)
8. Net Position - Beginning of the Period	420,132,077,408.29	21,395,679,245.16	441,527,756,653.45			\$441,527,756,653.45
9. Net Position - End of the Period	\$86,711,526,246.45	\$9,058,445,560.66	\$95,769,971,807.11			\$95,769,971,807.11

Additional Information included in Note 18.

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Department of the Navy
STATEMENT OF BUDGETARY RESOURCES
As of September 30, 1998
(in Dollars and Cents)

1998

BUDGETARY RESOURCES

1. Budget Authority	\$81,804,041,429.44
2. Unobligated Balance - Beginning of Period	12,319,088,417.62
3. Net Transfers Prior-Year Balance, Actual (+/-)	(82,768,409.00)
4. Spending Authority from Offsetting Collections	5,282,566,926.78
5. Adjustments	<u>482,076,126.67</u>
6. Total Budgetary Resources	<u>\$99,805,004,491.51</u>

STATUS OF BUDGETARY RESOURCES

7. Obligations Incurred	\$88,371,229,640.96
8. Unobligated Balances - Available	10,060,421,135.48
9. Unobligated Balances - Not Available	<u>1,373,353,715.07</u>
10. Total, Status of Budgetary Resources	<u>\$99,805,004,491.51</u>

OUTLAYS

11. Obligations Incurred	\$88,371,229,640.96
12. Less: Spending Authority From Offsetting Collections and Adjustments	(8,276,874,173.04)
13. Obligated Balance, Net - Beginning of Period	45,699,111,383.56
14. Obligated Balance Transferred , Net	
15. Less: Obligated Balance, Net - End of Period	<u>(46,971,169,173.22)</u>
16. Total Outlays	<u>\$78,822,297,678.26</u>

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Supplemental Information

Consolidating Schedules

STATEMENT OF BUDGETARY RESOURCES For the period ending September 30, 1998 (in Dollars and Cents)

	<u>Operations and Maintenance</u>	<u>Military Personnel</u>
Budgetary Resources		
1. Budget Authority	\$26,792,519,000.00	\$24,560,189,000.00
2. Unobligated Balance - Beginning of Period	857,216,215.80	178,045,248.24
3. Net Transfers Prior - Year Balance, Actual (+/-)	(44,117,000.00)	(34,000,000.00)
4. Spending Authority from Offsetting Collections	3,894,896,011.40	318,191,063.30
5. Adjustments	257,706,572.25	128,393,398.83
6. Total Budgetary Resources	<u><u>\$31,758,220,799.45</u></u>	<u><u>\$25,150,818,710.37</u></u>
Status of Budgetary Resources		
7. Obligations Incurred	\$31,214,198,316.10	\$24,964,071,690.10
8. Unobligated Balances - Available	79,432,437.67	65,794,236.00
9. Unobligated Balances - Not Available	464,590,045.68	120,952,784.27
10. Total Status of Budgetary Resources	<u><u>\$31,758,220,799.45</u></u>	<u><u>\$25,150,818,710.37</u></u>
Outlays		
11. Obligations Incurred	31,214,198,316.10	24,964,071,690.10
12. Less: Spending Authority From Offsetting Collections and Adjustments	(4,712,149,186.34)	(491,648,508.61)
13. Obligated Balance, Net - Beginning of Period	7,145,878,378.92	1,545,009,913.35
14. Obligated Balance Transferred , Net		
15. Less: Obligated Balance, Net - End of Period	(7,846,831,866.68)	(1,897,310,095.77)
16. Total Outlays	<u><u>25,801,095,642.00</u></u>	<u><u>24,120,122,999.07</u></u>

Supplemental Information

Consolidating Schedules

STATEMENT OF BUDGETARY RESOURCES For the period ending September 30, 1998 (in Dollars and Cents)

	<u>Procurement</u>	<u>Research, Development, Test and Evaluation</u>
Budgetary Resources		
1. Budget Authority	\$20,971,485,000.00	\$8,152,175,114.03
2. Unobligated Balance - Beginning of Period	9,926,150,668.46	579,147,462.17
3. Net Transfers Prior - Year Balance, Actual (+/-)	4,879,000.00	(9,571,000.00)
4. Spending Authority from Offsetting Collections	705,200,707.30	151,792,930.81
5. Adjustments	205,727,275.27	(184,605,033.83)
6. Total Budgetary Resources	<u>\$31,813,442,651.03</u>	<u>\$8,688,939,473.18</u>
Status of Budgetary Resources		
7. Obligations Incurred	\$22,429,361,261.54	\$8,172,966,446.97
8. Unobligated Balances - Available	8,736,200,180.50	418,937,345.86
9. Unobligated Balances - Not Available	647,881,208.99	97,035,680.35
10. Total Status of Budgetary Resources	<u>\$31,813,442,651.03</u>	<u>\$8,688,939,473.18</u>
Outlays		
11. Obligations Incurred	22,429,361,261.54	8,172,966,446.97
12. Less: Spending Authority From Offsetting Collections and Adjustments	(2,450,671,796.47)	(313,626,325.32)
13. Obligated Balance, Net - Beginning of Period	31,578,257,342.47	3,856,672,859.13
14. Obligated Balance Transferred, Net		
15. Less: Obligated Balance, Net - End of Period	(31,975,872,634.84)	(3,783,414,307.90)
16. Total Outlays	<u>19,581,074,172.70</u>	<u>7,932,598,672.88</u>

Supplemental Information

Consolidating Schedules

STATEMENT OF BUDGETARY RESOURCES For the period ending September 30, 1998 (in Dollars and Cents)

	<u>Military Construction</u>	<u>Other</u>
Budgetary Resources		
1. Budget Authority	\$725,495,000.00	\$602,178,315.41
2. Unobligated Balance - Beginning of Period	362,723,757.40	415,805,065.55
3. Net Transfers Prior - Year Balance, Actual (+/-)	40,591.00	
4. Spending Authority from Offsetting Collections	211,435,947.53	1,050,266.44
5. Adjustments	(4,559,081.55)	79,412,995.70
6. Total Budgetary Resources	\$1,295,136,214.38	\$1,098,446,643.10
Status of Budgetary Resources		
7. Obligations Incurred	\$1,021,157,910.00	\$569,474,016.25
8. Unobligated Balances - Available	242,104,051.79	517,952,883.66
9. Unobligated Balances - Not Available	31,874,252.59	11,019,743.19
10. Total Status of Budgetary Resources	\$1,295,136,214.38	\$1,098,446,643.10
Outlays		
11. Obligations Incurred	1,021,157,910.00	569,474,016.25
12. Less: Spending Authority From Offsetting Collections and Adjustments	(226,303,010.37)	(82,475,345.93)
13. Obligated Balance, Net - Beginning of Period	904,010,823.72	669,282,065.97
14. Obligated Balance Transferred , Net		
15. Less: Obligated Balance, Net - End of Period	(919,667,815.71)	(548,072,452.32)
16. Total Outlays	779,197,907.64	608,208,283.97

Supplemental Information

Consolidating Schedules

STATEMENT OF BUDGETARY RESOURCES For the period ending September 30, 1998 (in Dollars and Cents)

	<u>Eliminating Entries</u>	<u>General Fund Total</u>
Budgetary Resources		
1. Budget Authority	\$0.00	\$81,804,041,429.44
2. Unobligated Balance - Beginning of Period		\$12,319,088,417.62
3. Net Transfers Prior - Year Balance, Actual (+/-)		(\$82,768,409.00)
4. Spending Authority from Offsetting Collections		\$5,282,566,926.78
5. Adjustments		\$482,076,126.67
6. Total Budgetary Resources	\$0.00	\$99,805,004,491.51
Status of Budgetary Resources		
7. Obligations Incurred	\$0.00	\$88,371,229,640.96
8. Unobligated Balances - Available		\$10,060,421,135.48
9. Unobligated Balances - Not Available		\$1,373,353,715.07
10. Total Status of Budgetary Resources	\$0.00	\$99,805,004,491.51
Outlays		
11. Obligations Incurred	88,371,229,640.96	
12. Less: Spending Authority From Offsetting Collections and Adjustments	(8,276,874,173.04)	
13. Obligated Balance, Net - Beginning of Period	45,699,111,383.56	
14. Obligated Balance Transferred , Net	0.00	
15. Less: Obligated Balance, Net - End of Period	(46,971,169,173.22)	
16. Total Outlays	0.00	78,822,297,678.26

Principal Statements

Department of Defense
Department of the Navy
STATEMENT OF FINANCING
As of September 30, 1998
(in Dollars and Cents)

	<u>1998</u>
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:	
A. Obligations Incurred	\$88,371,229,640.96
B. Less: Spending Authority for Offsetting Collections and Adjustments	(8,156,497,664.51)
C. Donations Not in the Entity's Budget	705,147,455.78
D. Financing Imputed for Cost Subsidies	33,692,598.00
E. Transfers- In (Out)	
F. Exchange Revenue Not in the Entity's Budget	
G. Other	
H. Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$79,953,324,926.28</u>
2. RESOURCES THAT TO NOT FUND NET COST OF OPERATIONS:	
A. Change in Amount of Goods, Services and Benefits Ordered but Not Yet Provided (Net Increases) Net Decreases	(\$7,438,710,347.74)
B. Costs Capitalized on the Balance Sheet	(401,976,702.00)
C. Financing Sources that Fund Costs of Prior Periods	
D. Other	
E. Total Resources That Do Not Fund Net Cost of Operations	<u>75,713,902.02</u> <u>(\$7,764,973,147.72)</u>
3. COSTS THAT DO NOT REQUIRE RESOURCES:	
A. Depreciation and Amortization	\$806,651,547.95
B. Revaluation of Assets and Liabilities	<u>7,224,554.38</u>
C. Other	
D. Total Costs That Do Not Require Resources	<u>\$813,876,102.33</u>
4. Financing Sources Yet to be Provided	<u>437,092,729.42</u>
5. Net Cost of Operations	<u>\$73,439,320,610.31</u>

Additional information included in Note 20.

The accompanying notes are an integral part of these statements.

Footnotes

DEPARTMENT OF THE NAVY

**NOTES TO THE
PRINCIPAL
FINANCIAL STATEMENTS**

Footnotes

Footnotes

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation. These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy, as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994 (Public Law 103-356), and other appropriate legislation. This report encompasses the financial activities of both the U.S. Navy and the U.S. Marine Corps herein referred to as the Department of the Navy. This report has also been prepared to provide information with which Congress, agency managers, the public, and other interested parties can assess management performance and stewardship. The financial statements have been prepared from the books and records of the Department in accordance with Department of Defense Guidance on Form and Content of Audited Financial Statements, as adopted from the Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements." These statements, therefore, are different from the financial reports, also prepared by the Department of the Navy pursuant to OMB directives that are used to monitor and control the Department of the Navy's use of budgetary resources.

B. Reporting Entity. The Department of the Navy was created on April 30, 1798 by an act of Congress (I Stat. 533; 5 U.S.C. 411-12). The Marine Corps and the Navy joined as the Department of the Navy by an act of Congress on July 11, 1798. The overall mission of the Department of the Navy is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year 1998 represents the third year that the Department of the Navy will prepare and have audited, financial statements as required by the Chief Financial Officers Act and the Government Management Reform Act.

The accounts used to prepare the principal statements are classified as entity/non-entity and by fund type. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

Entity Accounts:

General funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17 0810	Environmental Restoration, Navy (fiscal year)
17 1105	Military Personnel, Marine Corps (fiscal year)
17 1106	Operation and Maintenance, Marine Corps (fiscal year)
17 1107	Operation and Maintenance, Marine Corps Reserve (fiscal year)
17 1108	Reserve Personnel, Marine Corps (fiscal year)
17 1109	Procurement, Marine Corps (fiscal year)
17 1205	Military Construction, Navy (fiscal year)
17 1235	Military Construction, Naval Reserve (fiscal year)

Footnotes

General funds continued

17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X1319	Research, Development, Test and Evaluation, Navy
17 1319	Research, Development, Test, and Evaluation, Navy (fiscal year)
17 1405	Reserve Personnel, Navy (fiscal year)
17 1453	Military Personnel, Navy (fiscal year)
17 1506	Aircraft Procurement, Navy (fiscal year)
17 1507	Weapons Procurement, Navy (fiscal year)
17 1508	Procurement of Ammunition, Navy and Marine Corps (fiscal year)
17X1611	Shipbuilding and Conversion, Navy
17 1611	Shipbuilding and Conversion, Navy (fiscal year)
17 1804	Operation and Maintenance, Navy (fiscal year)
17 1806	Operation and Maintenance, Navy Reserve (fiscal year)
17 1810	Other Procurement, Navy (fiscal year)
17X3980	Navy Management Fund

Revolving funds

17X4557	National Defense Sealift Fund, Navy
17 4557	National Defense Sealift Fund, Navy (fiscal year)

Trust funds

17X8008	Naval Historical Center Fund (formerly Office of Naval Records and History Fund)
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship's Stores Profits, the Navy
17X8730	United States Naval Academy Museum Fund
17X8733	United States Naval Academy General Gift Fund

Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account
17 5429(001)	Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts

Special funds (Receipt Accounts)

17 3041	Recoveries under the Foreign Military Sales Programs
17 3210	General Fund proprietary Receipts, Defense Military, Not Otherwise Classified
17F3875	Budget Clearing Account (Suspense)
17F3878	Budget Clearing Account (Deposits)

Footnotes

Special funds (Receipt Accounts) continued

17F3879	Undistributed and Letter of Credit Differences (Suspense)
17F3880	Unavailable Check Cancellations and Overpayments (Suspense)
17F3886	Civilian Thrift Savings Plan

Special funds

17X3885	Undistributed Intra-Governmental Payments, Navy
17X9082	Intra-Budgetary Transactions-Trust Funds National Defense

Deposit funds

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps, Deposit Fund
17X6050	Employees Payroll Allotment Accounts (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for payment of Employee Organization dues, Navy
17X6083	Withheld Allotment of compensation from Charitable Contributions Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotments Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

The accompanying financial statements account for all resources for which the Department of the Navy is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. The financial statements are presented on the accrual basis of accounting as required by the Department of Defense accounting policies. Financial statements and reports are prepared by the Defense Finance and Accounting Service - Cleveland Center, based upon data provided by financial reporting systems and specialized data calls.

C. Budgets and Budgetary Accounting. The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for directing the Department of the Navy's budget and monitoring its execution against funds appropriated by Congress. Funds are distributed by appropriation directors through major commands to activities responsible for accomplishing the diverse missions for which the Department of the Navy is responsible. As

Footnotes

missions are performed, activities report obligations and disbursements against the applicable appropriations.

The Department of the Navy funds are divided into various types, i.e. general, revolving, special, receipt, deposit and trust accounts. These accounts are used to fund and report how the resources have been used in the course of executing the Department of the Navy's missions.

1. General funds are used to record financial transactions arising under congressional appropriations.

2. Revolving fund accounts are funds authorized by specific provisions of law to finance a continuing cycle of operations in which expenditures generate receipts and the receipts are available for expenditure without further action by Congress. The National Defense Sealift Fund is the Department's only revolving fund.

3. Special funds account for receipts of the government that are earmarked for a specific purpose. Receipt accounts are used to categorize collections or receipts. Receipts are "Available" or "Unavailable," meaning an agency may or may not spend its collections depending upon Congressional decisions made during the appropriation process. During fiscal year 1998, the Department of the Navy maintained six special fund receipt accounts and internally processed their activities using the pseudo account number reference "17 0002."

4. Deposit fund accounts generally are used to (1) hold assets for which the Department is acting as agent or custodian or whose distribution awaits legal determination or (2) account for unidentified remittances. The Department of the Navy maintains 16 deposit funds.

5. Trust fund accounts are used to record the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of a donor, trust agreement, or statute. Trust accounts include funds collected through gifts and bequests, assets held for particular purposes and interest earned on investments.

D. Basis of Accounting. Transactions are generally recorded on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. All known intrafund balances have been eliminated.

General ledger account balances have been verified to the year-end departmental budget execution and expenditure reports. Budget execution reports are prepared from activity reports that are certified for accuracy and completeness by activity commanders. Other methods, to include feeder reports and logistic data calls, must be used to verify the

Footnotes

general ledger balances in those instances where budget execution and expenditure reports do not contain the particular information, for example, "Property, Plant, and Equipment."

Accounts payable for goods and services are generally recognized upon receipt of a receiving document providing notification of acceptance of goods or services. According to Public Law 101-510, outstanding accounts payable from fiscal year 1992 and prior fiscal years are subject to payment.

E. Revenues and Other Financing Sources. Financing sources for general funds are provided through congressional appropriations that are received on both an annual and multi-year basis. Revenue for business fund activities is recognized at the point the rendered service is completed and billed or at the point inventory items are sold.

1. For financial reporting purposes under accrual accounting, operating expenses for general fund activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations. Unexpended appropriations are recorded as equity of the U.S. Government.

2. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required.

F. Accounting for Intra-Governmental Activities. The Department of the Navy, as an agency of the federal government, interacts with and is dependent upon the financial activities of the Department of Defense and the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Department of the Navy as though the agency were a stand-alone entity.

1. The Department of the Navy's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related interests costs are not apportioned to federal agencies. The Department's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

2. Financing for the construction of the Department of the Navy's facilities is obtained through budget appropriations. To the extent this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury does not allocate interest costs to the benefiting agencies.

3. The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The

Footnotes

Department funds a portion of the civilian and military pensions. Reporting pension benefits under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management. The Department recognizes an imputed expense for civilian employee pensions and other retirement benefits in the statement of net cost; and recognizes imputed revenue for the civilian employee pensions and other retirement benefits in the statement of changes in net position. The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund CFO report. The Department recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements.

4. Most legal actions, other than contract claims, to which the Department of the Navy may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Chapter 163 of Title 10, United States Code, governing military claims. Either because payments under these statutes are limited to, amounts well below the threshold of materiality for claims payable from the Department of the Navy's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (Judgment Fund), these legal actions should not materially affect the Department of the Navy's operations or financial condition.

5. In fiscal year 1998, the Department of the Navy sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under provisions of the Act, the Department of the Navy has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to trust funds maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In fiscal year 1998, the Department of the Navy received reimbursements of \$136 million for assets and services sold under the Foreign Military Sales program.

G. Funds with the U.S. Treasury and Cash. The Department of the Navy's fund resources are maintained in U.S. Treasury accounts. Its cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances. Material disclosures are provided at Note 2.

H. Foreign Currency. The Department of the Navy conducts a significant portion of its operations overseas. Gains and losses from foreign currency transactions for four general fund appropriations (Operation and Maintenance, Military Construction, Family Housing Operation and Maintenance, and Family Housing Construction) are recognized and reported in the net cost statement. The gains or losses are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year. Similar gains and losses for other appropriations are not recognized in the net cost statement. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. Material disclosures are provided at Note 3.

I. Accounts Receivable. As presented in the balance sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other entities.

Footnotes

Allowances for uncollectible accounts are based upon analysis of collection experience by fund type.

The ending balance of public accounts receivables reported on the Fourth Quarter FY 1998 'Report on Receivables Due From the Public' (Receivables Report) exceeds the total Public Accounts Receivables reported on the financial statements by \$45,288,972. The variance is due to amounts included on the financial statements that are not included in the Receivables Report: (1) \$1,484,517 in reopened year accounts receivables, (2) (\$48,902,158) in calculated allowances for uncollectible accounts receivables and (3) an additional receivable balance of \$2,128,669 being researched. The Receivables Report only reflects the actual allowances reported on feeder reports; it does not reflect the DON average used in preparation of the financial statements.

J. Loans Receivable. Not applicable

K. Inventories and Related Property. Inventories, are valued at Latest Acquisition Cost (LAC) which approximates historical cost as required by Department of Defense accounting policies. LAC is determined by subtracting appropriate surcharges from the Standard Cost to arrive at the price most recently paid for a carried item. No gains or losses are recognized in the net cost statement as a result of changes in valuation for operating materials and supplies. Such changes are reflected in the asset valuation and related invested capital as reported in the balance sheet statement. The related property portion of the amount reported includes operating materials and supplies, stockpile materials, seized property and forfeited property. Operating materials and supplies are valued at historical cost. Ammunition and munitions that are not held for sale are treated as operating materials and supplies. For FY 1998, the Department has elected to use the purchase method of recognizing operating materials and supplies, as provided in SFFAS No. 3. Therefore, operating materials and supplies are expensed when purchased. Other material disclosures related to inventory and related property are provided at Note 8.

L. Investments in U.S. Government Securities. Investments in U.S. government securities are reported by the Department of the Navy Trust funds at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. It is the intent of the Department of the Navy to hold its trust fund investments to maturity unless they are needed to finance claims or otherwise sustain operations. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. Material disclosures are provided at Note 4.

M. General Property, Plant, and Equipment.

1. The costs of Stewardship Assets (National Defense Property, Plant and Equipment, Heritage Assets and Stewardship Land) shall not be reported on the balance sheet beginning in Fiscal Year 1998. Any such previously reported costs shall be charged to the Net Position of the Entity, and the adjustment shall be shown as a "prior period adjustment." Other

Footnotes

information on Stewardship Assets shall be reported in the Required Supplemental Stewardship Information.

General Property, Plant, and Equipment (PP&E) are valued at historical acquisition cost. All General PP&E, other than land, shall be depreciated in accordance with the Under Secretary of Defense (Comptroller) (USD(C)) policy memorandum dated March 26, 1998. DoD Components shall recognize and report General PP&E in accordance with the USD(C) policy memorandum dated May 22, 1998. These policy memorandums are available at: http://www.dtic.mil/comptroller/fmr/04/04_recent.html on the Internet.

Multi-use Heritage Assets are treated as General PP&E for reporting and accounting purposes. Therefore, the acquisition costs of Multi-use Heritage Assets, and any capitalized renovations or improvements, shall be reported on the balance sheet and depreciated. Multi-use Heritage Assets are Heritage Assets that are used predominantly for government operations (e.g., The Pentagon).

When records are not available to support the original acquisition cost of General PP&E, estimates shall be used. Such estimates shall be based on either (1) the cost of similar assets at the time of acquisition or (2) the current cost of similar assets discounted for inflation since the time of acquisition. If the original acquisition costs are not known for a significant amount of assets in a major class of General PP&E, the Notes to the principal statements shall disclose the method of valuation and the reason for its use.

No gains or losses were recognized in the net cost statement for revaluation changes and/or loss of equipment. However, the assets and related investment accounts reflect both pricing and value changes based on periodic updates to the general ledger. Routine maintenance and repair costs are expensed when incurred.

Real property comprising land and facilities are valued at cost. Buildings are capitalized when constructed is completed or at the date of acquisition. Material disclosures are provided at Note 9.

N. Prepaid and Deferred Charges. Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

O. Leases. As of September 30, 1998 the Department of the Navy was committed to numerous annual operating leases and rental agreements. Generally, these leases and agreements were for rental equipment, space, and operating facilities. The Department owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country.

P. Contingencies. At any given time, the Department of the Navy may be a party to various legal and administrative actions and claims brought against it. These relate

Footnotes

primarily to tort claims resulting from aircraft, ship, and vehicle accidents, medical malpractice, property and environmental damages resulting from Departmental activities, and contract disputes.

Most legal actions, other than contract claims, to which the Department may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payment under these statutes are limited to, amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the Department's operations or financial condition. Contingencies related to the Judgment Fund are reflected as current period imputed cost offset by a corresponding imputed financing entry.

Liabilities for the Department of the Navy's Environmental Program are comprised of cleanup costs at Navy installations. This estimated environmental requirement includes environmental restoration efforts and environmental costs at Base Realignment and Closure sites. The possible fiscal year 1998 cost for completion of these efforts totals \$5,843 million. The Department of the Navy resources for these requirements are in the Base Realignment and Closure and the Environmental Restoration, Navy accounts.

Q. Accrued Leave. Civilian annual leave and military leave are earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of non-vested leave are expensed as taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Accrued leave for the Navy is recorded through automatic postings from the Defense Civilian Payroll System.

R. Equity. Equity consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

Cumulative results of operations represents the difference since inception of the activity between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning in FY 1998, this will include the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there will no longer be a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or pre-credit reform loans, or a separate negative amount shown for future funding requirements. Cumulative results of operations for working capital funds represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

Footnotes

S. **Aircraft/Ship Crashes.** Aircraft/ships are National Defense PP&E; therefore, the cost of these assets do not appear as assets in the financial statements. No loss is recognized for aircraft/ships which were destroyed or damaged. Costs associated with repair of such aircraft/ships are recorded as operating expenses and generally funded from operation and maintenance appropriations. Discussion of significant increases and decreases of Aircraft and Ships and other National Defense PP&E is disclosed in the Required Supplemental Stewardship Information.

T. **Treaties for Use of Foreign Bases.** The Department of the Navy has the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the Department of the Navy continued use of these properties until the treaties expire. Capital investments in buildings and other facilities (for example, runways) located on the overseas bases are capitalized as stipulated in Note 1-M. These fixed assets are subject to loss in the event the treaties are not renewed or other agreements are not reached which allow for the continued use by the Department of the Navy. Therefore, in any event these treaties or agreements are terminated whereby any use of foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount due the United States for such capital investments.

U. **Comparative Data.** Comparative data for the prior year has not been presented because this is the first year for which financial statements are prepared using the Office of Management and Budget 97-01 prescribed format. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Department of the Navy's reporting activities.

V. **Undelivered Orders.** The Department of the Navy is obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1998. The Department has Undelivered Orders of \$53 billion.

Footnotes

Note 2. Fund Balances with Treasury (in Dollars and Cents):

	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Appropriated Funds</u>	<u>Other Fund Types</u>	<u>Total</u>
A. Entity Fund and Account Balances					
Unobligated Balance Available					
Available	\$10,206,026.35	\$560,984,649.00	\$9,463,398,304.68	\$16,073,502.31	\$10,050,662,482.34
Restricted			1,373,353,716.77		1,373,353,716.77
Reserve For Anticipated Resources					
Obligated (but not Expensed)	6,747,832.22	1,648,838,929.00	45,262,472,478.39	53,109,933.07	46,971,169,172.68
Unfunded Contract Authority					
Unused Borrowing Authority					
Total Entity Treasury Balance	\$16,953,858.57	\$2,209,823,578.00	\$56,099,224,499.84	\$69,183,435.38	\$58,395,185,371.79
B. Non-Entity Fund and Account Balance					
				(\$151,543,271.97)	(\$151,543,271.97)

C. The Fund Balance with Treasury does not include any amounts for which the Department of the Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with SFFAS Number 1.

D. Other Information:

Funds Returned to the Treasury. During FY 1998 the Department of the Navy returned \$1,732,392,119.84 back to the Treasury. This consisted of the FY 1993 program year that went into a canceled/withdrawn status. The Navy returned \$1,645,680,542.37 and the Marine Corps returned \$86,711,577.47.

Non-Entity Fund Balance with Treasury. The negative balance of (\$151,543,271.97) recorded in the Non-Entity Fund Balance with Treasury resulted from the negative balance recorded in Budget Clearing (Suspense), 17F3875 account.

Ending Balance 9/30/97	(\$327,502,011.84)
Less Canceling Year and Receipt Accounts	146,510,215.14
Beginning Balance Restated	(\$180,991,796.70)
Collected	174,702,626.18
Disbursed	145,254,101.45
Ending Balance	(\$151,543,271.97)

Deposits in Transit (Suspense): The Fund Balance includes \$5,813,718.22 from F3878 Deposits in Transit (suspense).

Footnotes

Note 3. Cash, Foreign Currency, and Other Monetary Assets (in Dollars and Cents):

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
A. Cash	\$8,668,288.58	\$130,078,161.04
B. Foreign Currency		1,859,386.19
C. Other Monetary Assets		
D. Total Cash, Foreign Currency, and Other Monetary Assets	<u>\$8,668,288.58</u>	<u>\$131,937,547.23</u>

E. Other Information: The \$140,605,835.81 is from the Department of the Navy Consolidated Statement of Accountability (SF 1219) as of September 30, 1998.

Foreign currency has been translated into U.S. Dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government for the acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

A decision was made in FY 1997 to report all Cash and Other Monetary Assets as Non-Entity on line 2c on the Statement of Financial Position. The \$8,668,228.58 is being reported by the Marine Corps as Entity Assets.

Note 4. Investments, Net (in Dollars and Cents):

	(1) <u>Cost</u>	(2) <u>Amortization Method</u>	(3) <u>Amortized Premium / (Discount)</u>	(4) <u>Investments Net</u>	(5) <u>Other Adjustments</u>	(6) <u>Market Value Disclosure</u>
A. Intragovernmental Securities:						
(1) Marketable	\$0.00		\$0.00	0.00		
(2) Non-Marketable Par Value	9,766,000.00	N/A	(7,347.39)	9,758,652.61		
(3) Non-Marketable Market Based						
Subtotal	<u>\$9,766,000.00</u>		<u>(\$7,347.39)</u>	<u>\$9,758,652.61</u>		
(4) Accrued Interest						
Total	<u> </u>		<u> </u>	<u> </u>		
B. Other Securities:						
(1) Commercial Paper	\$0.00					
(2) Other						
Subtotal	<u>\$0.00</u>					<u>\$0.00</u>
(4) Accrued Interest						
C. Total	<u>\$0.00</u>					<u>\$0.00</u>

Note 4. Investments, Net (in Dollars and Cents): (con't)

D. Other Information: The Trust Funds have a total net investment of \$9,758,652.61. The Trust Funds that have investments are the following; Navy General Gift Fund, Naval Academy Museum Fund, Naval Academy General Gift Fund and Naval Historical Center Fund. These investments are Non-Marketable Par Value securities reported at cost, net of unamortized premiums and discounts. The details for each Trust Fund are the following:

	<u>Cost</u>	<u>Amortized Premium/ (Discount)</u>	<u>Investment Net</u>
Navy General Gift Fund	\$1,297,000.00	\$0.00	\$1,297,000.00
Naval Academy Museum Fund	1,601,000.00	(18.75)	1,600,981.25
Naval Academy General Gift Fund	6,265,000.00	(6,838.64)	6,258,161.36
Naval Historical Center Fund	603,000.00	(490.00)	602,510.00
Total	\$9,766,000.00	(\$7,347.39)	\$9,758,652.61

Note 5. Accounts Receivable, Net (in Dollars and Cents):

	<u>(1) Gross Amount Due</u>	<u>(2) Allowance for Estimated Uncollectables</u>	<u>(3) Net Amount Due</u>
A. Entity Receivables:			
Intragovernmental	\$2,212,756,677.38	\$0.00	\$2,212,756,677.38
With the Public	2,580,966,988.00	55,119,309.00	2,525,847,679.00
B. Non-Entity Receivables:			
Intragovernmental	367,686,749.00	0.00	367,686,749.00
With the Public	1,027,139.56	0.00	1,027,139.56

C. Allowance Method Used: The Department of the Navy does not have a Department wide allowance for estimated uncollectibles. Using the Report on Receivables Due from the Public, an allowance of 2.93% was calculated for FY 1998 and used in instances where the historical rate were not available. In instances where the historical rate exists, the chart below indicates the allowances which were used. The Defense Debt Management System is the source for this allowance.

<u>Appropriation</u>	<u>Allowance</u>
17 1453 - Military Personnel , Navy	19%
17 1105 - Military Personnel, Marine Corps	7%
17 1108 - Reserve Personnel, Marine Corps	9%
17 1106 - O&M, Marine Corps	.02%

Footnotes

Note 5. Accounts Receivable, Net (in Dollars and Cents): (con't)

D. Other Information:

Canceled Contract Receivable Balance. Included in the Accounts Receivable from Governmental sources is an advance payment of \$1,352,459,644.00 made to two contractors. The contract was subsequently canceled. The contract was for the A-12 aircraft program which is still in litigation. During October 1998, DFAS-CL asked the Navy General Counsel for a decision on the feasibility of collecting the entire, partial, or no amount of this advance payment. If it was determined that a partial collection could be made DFAS-CL required a formula which was to determine how the partial amount was derived. DFAS-CL placed the entire amount into Accounts Receivable-Governmental per the recommendation from a 1994 General Accounting Office financial operation audit.

Reconciliation with Report on Receivables Due From the Public. The ending balance of public accounts receivables reported on the Fourth Quarter FY 1998 exceeds the total Public Accounts Receivables reported on the financial statements by \$45,288,972. The variance is due to amounts included on the financial statements that are not included in the Receivables Report: (1) (\$1,484,517.00) in reopened year accounts receivables and (2) (\$48,902,158.00) in calculated allowances for uncollectible accounts receivables and (3) an additional receivable balance of \$2,128,669.00 being researched. The Receivables Report only reflects the actual allowances reported on feeder reports; it does not reflect the DoN average used in preparation of the financial statements.

Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) Accounts Receivable Balance. During FY 1998 DFAS-CL and DFAS-KC included in its Accounts Receivable-Governmental balance refunds receivable from MOCAS and DDMS. The amounts were \$583,373.50 for the MOCAS system debts and \$200,284,278.64 for the DDMS-Navy. The \$858,819.17 for the DDMS-DLA. Administrative write-offs from the DDMS-Navy were \$14,581,675.07.

Vendor Pay Accounts Receivable. During FY 1998 DFAS-CL included in its Accounts Receivable - Governmental balance the off-line local systems from Vendor Pay at the Operating Locations that were not recorded in the STARS system. The amount was \$2,644,513.51 for the off-line receivables.

Non-Entity Accounts Receivable. Included in the accounts receivable balances are \$103,241,054.91 in Non-Entity Accounts Receivable. These balances are derived from the canceled/withdrawn program years which contained accounts receivable balances outstanding at the time the program year went into a canceled status.

Note 6. Other Assets (in Dollars and Cents):**A. Other Entity Assets**

1. Intragovernmental	\$0.00
(a) Assets Returned for Credit	
(b) Other	
Total Intragovernmental	<u><u>\$0.00</u></u>
2. Other	
(a) Advances to Contractors	\$2,936,266,822.24
(b) Other	
Total Other	<u><u>\$2,936,266,822.24</u></u>

B. Other Information related to entity assets:**C. Other Non-entity Assets**

1. Intragovernmental	\$0.00
(a)	
(b)	
Total Intragovernmental	<u><u>\$0.00</u></u>
2. Other	
(a) Advances and Prepayments	(\$45,322.70)
(b)	
Total Other	<u><u>(\$45,322.70)</u></u>

D. Other Information related to non-entity assets:**Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in Dollars and Cents):****Note 8A. Inventory (in Dollars and Cents):**

	(1) <u>Inventory Amount</u>	(2) <u>Allowance for (Gains) Losses</u>	(3) <u>Inventory Net</u>	(4) <u>Valuation Method</u>
1. Inventory Categories:				
(a) Held for Current Sale	\$42,199.00	\$0	\$42,199.00	Actual Cost
(b) Held in Reserve for Future Sale				
(c) Excess, Obsolete and Unserviceable				
(d) Held for Repair				
Total	<u><u>\$42,199.00</u></u>	<u><u>\$0</u></u>	<u><u>\$42,199.00</u></u>	

Footnotes

Note 8A. Inventory (in Dollars and Cents): (con't)

2. Restrictions on Inventory Use, Sale, or Disposition: None

3. Other Information: The inventory amount represents US Naval Academy Museum Fund catalogs of Battle Prints.

Legend: Valuation Methods

LAC = Latest Acquisition

NRV = Net Realizable Value

SP = Standard Price

O = Other

AC = Actual Cost

Note 8B. Operating Material and Supplies (OM&S), (in Dollars and Cents): (Not Applicable)

Note 8C. Stockpile Materials (in Dollars and Cents): (Not Applicable)

Note 8D. Seized Property (in Dollars and Cents): (Not Applicable)

Note 8E. Forfeited Property, Net (in Dollars and Cents): (Not Applicable)

Note 8F. Goods Held Under Price Support and Stabilization Programs (in Dollars and Cents): (Not Applicable)

Note 8. Recap of Inventory and Other Related Property (in Dollars and Cents):

	<u>Amount</u>
Inventory, Net	\$42,199.00
Operating Materials and Supplies	
Stockpile Materials, Net	
Seized Property, Net	
Forfeited Property, Net	
Total	<hr/> \$42,199.00

Note 9. General Property, Plant and Equipment (in Dollars and Cents):

	<u>(1) Depreciation Method</u>	<u>(2) Service Life</u>	<u>(3) Acquisition Value</u>	<u>(4) Accumulated Depreciation</u>	<u>(5) Net Book Value</u>
Major Classes of Assets					
A. Land	N/A	N/A	\$672,863,000.00	N/A	\$672,863,000.00
B. Structures, Facilities and Leasehold Improvements	SL	40 Year	24,067,240,000.00	10,963,955,000.00	13,103,285,000.00
C. ADP Software	N/A	Various	16,438,555,269.00	0.00	16,438,555,269.00
D. Equipment	N/A	Various	2,935,937,460.00	0.00	2,935,937,460.00
	SL	5 Year	1,302,378,293.00	1,104,366,696.90	198,011,596.10
	SL	10 Year	68,087,801.00	59,569,793.40	8,518,007.60
	SL	20 Year	11,506,095.00	4,142,725.00	7,363,370.00
E. Assets Under Capital Lease			4,732,480,825.18		4,732,480,825.18
F. Construction-in-Progress			42,338,962.33		42,338,962.33
G. Other					
Total			\$50,271,387,705.51	12,132,034,215.30	\$38,139,353,490.21

I. Other Information:

Legends:

Column (1) Above
Depreciation Methods

SL = Straight Line
O = Other (explain)

Military Equipment. All Military Equipment was removed from the Balance Sheet by use of a Prior Period Adjustment. This was in accordance with guidance provided by the Office of the Under Secretary of Defense Comptroller (OUSDC) and the Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) numbers 6 and 8. This decrease consisted of:

Navy	\$265,933,276,333.82
Marine Corps	<u>\$8,405,984,000.00</u>
Total	\$274,339,260,333.82

Reclassification. In FY 1997 Military Equipment included \$17,653,088,000.00 of Equipment in the Hands of Contractors. Personnel from the Navy Office of Financial Operations (FMO) stated that this should be reclassified from Military Equipment to General Property, Plant, and Equipment.

General Property, Plant and Equipment.

A. Land. The value of the land reported in the FY 1998 CFO statements is net of land which was considered Stewardship Land and removed from the Balance Sheet in accordance with SFFAS number 6 and 8.

Footnotes

Note 9. General Property, Plant and Equipment (in Dollars and Cents): (con't)

C. Equipment.

Property in the Hands of Contractors. Equipment in the hands of contractors decreased between FY 1997 and FY 1998 by approximately \$1,214,532,731,000.00 to \$16,438,555,269.00. There was no depreciation expense or accumulated depreciation applied to this equipment because sufficient information was not available.

General Equipment. Total equipment reported was \$3,411,571,150.00 of this amount insufficient information was received for \$2,935,936,460.00 to calculate a depreciation expense and accumulated depreciation. The Marine Corps reported \$903,701,471.00 of this total.

Heritage Assets. Assets valued at \$38,523,962.00 was taken off the balance sheet in accordance with SFFAS #6 and 8.

Capitalization Threshold. A March 26, 1998 memorandum from the OUSD(C) required that a \$100,000.00 capitalization threshold was to be applied to all property, plant and equipment which is to be capitalized. Any equipment, which was previously reported as property, plant and equipment, and did not meet the capitalization threshold was to be taken off the balance sheet using a prior period adjustment. For FY 1998 \$2,060,505,883.00 of general equipment did not meet the capitalization threshold. Additionally, military trainers were included as general property, plant, and equipment, however, OUSD(C) made a decision which reclassified military trainers as National Defense Property, Plant, and Equipment which was removed from the Balance Sheet through the use of a prior period adjustment. The value of military trainers which were initially reported was \$1,459,117,967.00.

Depreciation. Depreciation expense and accumulated depreciation was computed for the equipment which had the sufficient information to apply a depreciation computation. The method of depreciation which was used was straight-line, with no residual (salvage) value, and applying a mid-year convention. Depreciation was applied retroactively to the equipment in the year that it was placed into service. Accumulated depreciation brought forward from the date the equipment was placed into service until FY 1997 (the year prior to the change to the accounting policy) was shown as a prior period adjustment. This amount was comprised of \$982,261,667.35.

Other. The value of Natural Resources, reported by the Navy, did not change between FY 1997 and 1998. This value remains at \$40,000,000.

Note 10. Debt (in Dollars and Cents): (Not Applicable)

Note 11.A. Environmental Cleanup (in Dollars and Cents):**1. Environmental Cleanup Liabilities Covered by Budgetary Resources**

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Accrued Cleanup Costs	\$0.00	\$0.00	\$0.00
(2) Other Environmental Liabilities			
Total	\$0.00	\$0.00	\$0.00
(b) With the Public			
(1) Accrued Cleanup Costs	\$0.00	\$0.00	\$0.00
(2) Other Environmental Liabilities			
Total	\$0.00	\$0.00	\$0.00

2. Environmental Cleanup Liabilities Not Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Accrued Cleanup Costs	\$0.00	\$0.00	\$0.00
(2) Other Environmental Liabilities			
Total	\$0.00	\$0.00	\$0.00
(b) With the Public			
(1) Accrued Cleanup Costs	\$5,281,100,000.00	\$562,000,000.00	\$5,843,100,000.00
(2) Other Environmental Liabilities			
Total	\$5,281,100,000.00	\$562,000,000.00	\$5,843,100,000.00

Accrued Clean-Up Cost : The amount included in the FY 1999 budget for Environmental Restoration, Navy and BRAC is reported as current liabilities with the balance reported as non-current liabilities.

Footnotes

Note 11.B Other Liabilities (in Dollars and Cents):

1. Other Liabilities Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Advances from Others	\$0.00	\$15,396,023.09	\$15,396,023.09
(2) Contingent Liabilities			
(3) Deferred Credits			
(4) Deposit Funds and Suspense Accounts Liabilities		(151,543,271.97)	(151,543,271.97)
(5) Liability for Borrowing to be Received			
(6) Liability for Subsidy Related to Undisbursed Loans			
(7) Other Liabilities		82,184.40	82,184.40
Accts Receivable- Canceling Year	53,681,289.37		53,681,289.37
Disbursing Officers Cash		140,605,835.81	140,605,835.81
Accts Receivable Reopened	274,879,387.67		274,879,387.67
(8) Resources Payable to Treasury			
Total	\$328,560,677.04	\$4,540,771.33	\$333,101,448.37

1. Other Liabilities Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(b) With the Public			
(1) Accrued Funded Payroll and Benefits	\$0.00	\$1,400,588,310.60	\$1,400,588,310.60
(2) Advances from Others		(4,474,293.05)	(4,474,293.05)
(3) Contingent Liabilities			
(4) Deferred Credits			
(5) Deposit Funds and Suspense Accounts			
(6) Other Liabilities			
Accts Receivable- Canceling Year	(2,875,475.00)		(2,875,475.00)
Accts Receivable - Reopened	(10,803,656.06)		(10,803,656.06)
Total	(\$13,679,131.06)	\$1,396,114,017.55	\$1,382,434,886.49

2. Other Information:

3. Other Liabilities not Covered by Budgetary Resources

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(a) Intragovernmental			
(1) Accounts Payable - Canceled	\$0.00	\$0.00	\$0.00
(2) Contingent Liabilities			
(3) Custodial Liability			
(4) Deferred Credits			
(5) Liability for Borrowing to be Received			
(6) Other Actuarial Liabilities			
(7) Other Liabilities		40,775,734.57	40,775,734.57
Total	\$0.00	\$40,775,734.57	\$40,775,734.57

Note 11.B Other Liabilities (in Dollars and Cents): (con't)

3. Other Liabilities not Covered by Budgetary Resources (con't)

	<u>Noncurrent Liability</u>	<u>Current Liability</u>	<u>Total</u>
(b) With the Public			
(1) Accounts Payable - Canceled	\$0.00	\$0.00	\$0.00
(2) Accrued Cleanup/Cost			
(3) Accrued Unfunded Liabilities		351,646,235.97	351,646,235.97
(4) Contingent Liabilities		79,008,000.00	79,008,000.00
(5) Deferred Credits		2,200,768.56	2,200,768.56
(6) Other Liabilities		161,986,535.44	161,986,535.44
Accrued Civilian Leave		712,273,000.00	712,273,000.00
Accrued Military Leave			
Accts Payable Reopened	2,130,335,557.86		
(7) Prior Liens Outstanding on Acquired Collateral			
Total	<u>2,130,335,557.86</u>	<u>\$1,307,114,539.97</u>	<u>\$3,437,450,097.83</u>

4. Other Information:

Note 12. Leases (in Dollars and Cents): (Not Applicable)

Note 13. Pensions and Other Actuarial Liabilities (in Dollars and Cents):

	<u>(1) Actuarial Present Value of Projected Plan Benefits</u>	<u>(2) Assumed Interest Rate (%)</u>	<u>(3) Assets Available to Pay Benefits</u>	<u>(4) Unfunded Actuarial Liability</u>
Major Program Activities				
A. Pensions and Health Benefits				
1. Military Retirement Pensions	\$0.00	\$0.00	\$0.00	\$0.00
2. Military Retirement Health Benefits				
B. Insurance/Annuity Programs				
1. Workers Compensation	1,213,674,000.00	5.60%	1,213,674,000.00	1,213,674,000.00
2.				
3.				
Total	<u>1,213,674,000.00</u>		<u>1,213,674,000.00</u>	<u>1,213,674,000.00</u>
C. Other:				
1.				
2.				
3.				
Total				
D. Total Lines A+B+C:	<u>\$1,213,674,000.00</u>		<u>\$1,213,674,000.00</u>	<u>\$1,213,674,000.00</u>

Footnotes

Note 13. Pensions and Other Actuarial Liabilities (in Dollars and Cents): (con't)

E. Other Information: The amount of \$2,390,148,000.00 was provided from the Department of Labor (DOL) to DoD as the actuarial liability estimate for DoN's future workers' compensation benefits (FWC). Of that amount, \$1,213,674,000.00 for General Fund was the result of the ASN(FM&C) FMO breaking down the DoN portion provided by the DOL between the General Fund and the NWCF. The General Fund is by number of civilian employees taken the Navy Budget Tracking System and the number were 1998 actuals. The liability for FWC benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1998
5.60 % in year 1,
and thereafter

Note 14 Unexpended Appropriations (in Dollars and Cents) :

A. Unexpended Appropriations

(1) Unobligated		
a. Available		\$10,060,421,135.92
b. Unavailable		1,373,353,715.44
(2) Undelivered Orders		54,798,993,854.06
Total		\$66,232,768,705.42

B. Other Information:

Unexpended appropriations - amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represent those goods and services that have not yet been received/Performed. Multi-year appropriations remain available to the DoD for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Generally speaking, accounts close five years after the appropriation expires.

Unexpended Appropriations exceeds Fund Balance With Treasury by \$7,837,583,333.63. This is attributed to the large negative payables that primarily occurred in Operations & Maintenance, Procurement, and RDT&E.

Note 15. Contingencies (in Dollars and Cents): Liabilities for the Department of the Navy's environmental program are comprised of clean-up costs at Navy installations. The environmental requirement estimate includes environmental restoration efforts and environmental costs at the Base Realignment and Closure Commission (BRAC) sites. The possible FY 1998 cost to completion for these efforts totals \$5,843,100,000.00. The Department of the Navy resources for these requirements are in the BRAC and the Environmental Restoration, Navy (ERN) account. For FY 1999 CFO Statements this amount was recorded as an Other Federal Liability Not Covered by Budgetary Resources.

The Department is subject to various asserted contract claims for over \$100,000 million. Claims which fall within this range total approximately \$1,917,000,000.00 as of September 30, 1998. These claims are in phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims, likely outcome, or possible associated loss, experience indicated that many such claims are settled for less than claimed, dismissed, or the possibility of the contingency materializing is remote.

Note 16A. Suborganization Program Costs (in Dollars and Cent): (Not Applicable)

Note 16B. Cost of National Defense PP&E (in Dollars and Cents): The Cost of Acquiring, Constructing, Improving, Reconstructing, and Renovating National Defense PP&E for FY 1998 the Department of the Navy incurred costs of \$16,487,324,394.86.

Note 16C. Cost of Stewardships Assets (in Dollars and Cents): (Not Applicable)

Note 16D. Stewardship Assets Transferred (in Dollars and Cents): (Not Applicable)

Note 16E. Exchange Revenue (in Dollars and Cents):

Note 16F. Revenue and Expense Amounts for Foreign Military Sales (FMS) Program Procurements From Contractors (in Dollars and Cents): (Not Applicable)

Note 16G. Benefit Program Expenses (in Dollars and Cents): (Not Applicable)

Footnotes

Note 16H. Gross Cost and Earned Revenue by Budget Functional Classification (in Dollars and Cents):

	Budget Function Code	Gross Cost	Earned Revenue	Net Cost
A. Department of Defense Military	51	\$77,571,282,926.00	\$4,131,962,315.69	\$73,439,320,610.31
B. Water Resources by US Army Corps of Engineers				
C. Pollution Control and Abatement by US Army Corps of Engineers				
D. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Funds				
E. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund				
Total		<u>\$77,571,282,926.00</u>	<u>\$4,131,962,315.69</u>	<u>\$73,439,320,610.31</u>

Note 17A. Summary of Deferred Maintenance Amounts By Category of Property, Plant & Equipment (in Dollars and Cents):

As of September 30, 1998

(a) <u>Category</u>	(b)
1. General Property, Plant and Equipment	\$3,072,495,000.00
2. National Defense Property, Plant & Equipment	\$600,748,000.00
3. Heritage Assets	
4. Stewardship Land	
Total	

Note 17B. General Property, Plant and Equipment Deferred Maintenance Amounts (in Dollars and Cents):

For the year ended September 30, 1998

(a) <u>Property Type / Major Class</u>	(b)
1. Personal Property	\$0.00
2. Real Property	
A. Buildings	1,949,714,000.00
B. Structures	1,113,179,000.00
C. Land	9,602,000.00
D. Total Real Property	<u>3,072,495,000.00</u>
3. Total	<u>\$3,072,495,000.00</u>

Note 17B. General Property, Plant and Equipment Deferred Maintenance Amounts (in Dollars and Cents): (con't)

Other Information: Actual hands-on, on site facility inspections are essential to the accurate determination of real property maintenance and repair requirements. The Reported Backlog of Maintenance and Repair (BMAR) is based on a continuous fence-to-fence inspection of facilities at each Navy installation, the results of which are reported each year in the Annual Inspection Summary (AIS) collected by the Naval Facilities Engineering Command (NAVFAC). The AIS is an inventory of each facility's BMAR deficiencies, including the cost to repair the stated deficiency, remaining at the end of the fiscal year. Deficiencies do not include alterations, additions, equipment installation, or recurring and preventative maintenance.

The reported BMAR, referred to as critical BMAR, includes only those critical deficiencies which are a firm requirement of the installation and meet one of the following criteria:

- Environmental - A deficiency posing an unacceptable risk of environmental damage or violation of statutory or regulatory requirements.
- Loss of Mission - A deficiency which has degraded mission capability contributing to a C3 or C4 facility condition rating in a standard base report (BASEREP) mission area.
- Safety - A deficiency with a risk assessment code of 1, 2, or 3.
- Quality of Life - A deficiency which has degraded the habitability or use of the barracks, galley, MWR facilities or other personnel support and service facilities.

No changes have been made to the condition requirements or standards from the previous reporting year.

BASEREP Rating Procedures:

C1 - Has fully met all demands placed upon it in a mission category throughout the reporting period.

C2 - Has substantially met all demands of the mission category throughout the reporting period with only minor difficulty.

C3 - Has only marginally met the demands of the mission category throughout the reporting period, but with major difficulty.

C4 - Has not met vital demand of the mission category.

Risk assessment code is an expression of risk which combines the elements of hazard severity and mishap probability. The codes are:

- 1 - Critical
- 2 - Serious
- 3 - Moderate
- 4 - Minor
- 5 - Negligible

Only those deficiencies that qualify as critical BMAR per the standards described above are reported in the above table. Specific details for each of the deficiencies, by site, and location, can be obtained from a review of the summary AIS collected by NAVFAC. The listing is to voluminous for this narrative summary.

The cost assessment survey method is used in developing BMAR data for real property.

Footnotes

Note 17C. National Defense Property, Plant and Equipment Deferred Maintenance Amounts (in Dollars and Cents):

As of September 30, 1998

(a) <u>Major Type</u>	(b)
1. Aircraft	\$205,376,000.00
2. Ships	0.00
3. Missiles	55,267,000.00
4. Combat Vehicles	16,271,000.00
5. Other Weapons Systems	323,834,000.00
Total	\$600,748,000.00

Other Information: Included in the Other Weapons Systems amount is \$41,035,000.00 for Ordnance.

All major types of weapons systems listed above are deferred as a result of a lack of adequate resources to induct into the depots. The equipment is categorized as not operable awaiting repair or operable in a degraded condition. Each major type of weapons system is reviewed continuously to ensure that the Department is able to meet its readiness goals to support and achieve national defense objectives.

No changes have been made to the condition requirements or standards from the previous reporting year.

There are four sub-categories that define the aircraft maintenance program, and they include airframe maintenance, engine maintenance, software maintenance, and components. Four categories are used to determine missile maintenance and they include strategic missiles, tactical missiles, software maintenance, and other. Within ship maintenance there are four categories and include overhaul, restricted/technical availability, software maintenance and other. The combat vehicles category is for vehicle overhaul. The other weapons systems category is comprised of ordinance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, fire control, target systems, towed arrays, sonar systems, and expeditionary airfield equipment. Three categories define ordnance maintenance and they include ordnance maintenance, software maintenance and other. The material condition of all equipment in the above categories is classified as not operable in a degraded condition except for ship maintenance which reflects zero maintenance.

The cost assessment survey method was used to determine the estimated amounts of deferred maintenance.

Note 18. Prior Period Adjustments (in Dollars and Cents):

A. Prior Period Adjustments

Prior Period Adjustments		
1. Changes in Accounting Standards		\$348,580,887,550.83
2. Errors and Omission in Prior Year Accounting Reports		2,277,272,385.37
3. Other		(159,369,808.33)
Total		\$350,698,790,127.87

B. Other Information: Changes in Accounting Standards includes: removal of military equipment, removal of heritage assets, application of depreciation, under capitalization threshold, and removal of stewardship land.

Note 18.B. Other Disclosures to the Statement of Changes in Net Position:**A. Other Information:****Note 19. Disclosures Related to the Statement of Budgetary Resources (in Dollars and Cents):**

1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	\$53,227,818,912.070
2. Available Borrowing and Contract Authority at the End of Period	\$000.00
3. The statement does not include any amounts for which the Department of the Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with SFFAS Number 1.	

4. Other Information:**Note 20. Disclosures Related to the Statement of Financing (in Dollars and Cents):****Note 21. Disclosures Related to the Statement of Custodial Activity (in Dollars and Cents): (Not Applicable)****Note 22. Intragency Eliminations (in Dollars and Cents):**

Statement		Balance Sheet	Net Cost	Balance Sheet
Level 1 Schedule, Part A. - Government-wide, Seller Activity	Treasury Index or Appropriation	Accounts Receivable by DoD Entity	Revenue by DoD Entity	Unearned Revenue by DoD Entity
Department of the Army, General Funds	21	\$000.00	\$000.00	\$000.00
Department of the Navy, General Funds	17	107,718,000.00	(164,639,000.00)	
Department of the Air Force, General Funds	57			
Department of the Army, WCF	97X4930.01			
Department of the Navy, WCF	97X4930.02			
Department of the Air Force, WCF	97X4930.03			
Defense Logistics Agency, WCF	97X4930.05x			
Defense Finance and Accounting Service, WCF	97X4930.05x			
DoD Military Retirement Trust Fund	97-8097			
U.S. Army Corps of Engineers (Civil Works)	96			
Other Defense Organizations, General Funds	97-xxxx			
Other Defense Organization, WCF	97X4930.xxx			
Total		\$107,718,000.00	(\$164,639,000.00)	

Footnotes

Note 22. Intragency Eliminations (in Dollars and Cents): (con't)

Level 1 Schedule, Part B - Government-wide, DoD Sales to Other Federal Agencies Disaggregated by Customer	Treasury Index:	Accounts Receivable by Customer:	Revenue by Customer	Unearned Revenue by Customer
Executive Office of the President, Defense Security Assistance Agency	11	\$000.00	\$000.00	\$000.00
Department of Agriculture	12			
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			
Department of Labor	16			
Department of State	19			
Department of the Treasury	20			
Office of Personnel Management	24			
Nuclear Regulatory Commission	31			
Department of Veterans Affairs	36			
General Service Administration	47			
National Science Foundation	49			
Federal Emergency Management Agency	58			
Environmental Protection Agency	68			
Department of Transportation	69			
Department for International Development	72			
Small Business Administration	73			
Department of Health and Human Services	75			
National Aeronautics and Space Administration	80			
Department of Housing and Urban Development	86			
Department of Energy	89			
Department of Education	91			
Social Security Administration	28			
Unidentifiable Federal Agency Entity	00	107,718,000.00	(164,639,000.00)	
Miscellaneous Identifiable Federal Agencies Not Required to Prepare CFO Audited Financial Statements	00			
Total		\$107,718,000.00	(164,639,000.00)	

Footnotes

Note 22. Intragency Eliminations (in Dollars and Cents): (con't)

Statement		Balance Sheet	Net Cost	Balance Sheet
A. Level 2 Schedule, Part A. - Intra-DoD, Seller Activity	Treasury Index or Appropriation	Accounts Receivable by DoD Entity	Revenue by DoD Entity	Unearned Revenue by DoD Entity
Department of the Army, General Funds	21	\$000.00	\$000.00	\$000.00
Department of the Navy, General Funds	17	2,061,232,000.00	2,999,711,000.00	15,396,000.00
Department of the Air Force, General Funds	57			
Department of the Army, WCF	97X4930.01			
Department of the Navy, WCF	97X4930.02			
Department of the Air Force, WCF	97X4930.03			
Defense Logistics Agency, WCF	97X4930.05x			
Defense Finance and Accounting Service, WCF	97X4930.05x			
DoD Military Retirement Trust Fund	97-8097			
U.S. Army Corps of Engineers (Civil Works)	96			
Other Defense Organizations, General Funds	97-xxxx			
Other Defense Organization, WCF	97X4930.xxx			
Total		2,061,232,000.00	2,999,711,000.00	15,396,000.00

Statement		Balance Sheet	Net Cost	Balance Sheet
A. Level 2 Schedule, Part B. Seller Activity Disaggregated by DoD CFO Entity	Treasury Index or Appropriation	Accounts Receivable by DoD Entity	Revenue by DoD Entity	Unearned Revenue by DoD Entity
Department of the Army, General Funds	21	\$107,802,492.75	\$498,353,363.35	\$000.00
Department of the Navy, General Funds	17			
Department of the Air Force, General Funds	57	150,721,056.72	240,693,639.48	
Department of the Army, WCF	97X4930.01			
Department of the Navy, WCF	97X4930.02			
Department of the Air Force, WCF	97X4930.03			
Defense Logistics Agency, WCF	97X4930.05x			
Defense Finance and Accounting Service, WCF	97X4930.05x			
DoD Military Retirement Trust Fund	97-8097			
U.S. Army Corps of Engineers (Civil Works)	96			
Other Defense Organizations, General Funds	97-xxxx	1,802,708,450.53	2,260,663,997.17	15,396,000.00
Other Defense Organization, WCF	97X4930.xxx			
Total		\$2,061,232,000.00	\$2,999,711,000.00	\$15,396,000.00

Footnotes

Note 22. Intragency Eliminations (in Dollars and Cents): (con't)

Statement	Balance Sheet	Net Cost	Balance Sheet
	Accounts Receivable by Entity Appropriation Group:	Revenue by Entity Appropriation Group:	Unearned Revenue by Entity Appropriation Group:
Level 3 Schedule, Part A. Intra-CFO Entity, Seller Activity			
Operations and Maintenance	\$388,779,000.00	\$859,165,000.00	\$0.00
Military Personnel	300,000.00	212,000.00	
Procurement	(414,343,000.00)	436,706,000.00	
Research and Development	4,850,000.00	47,439,000.00	
Military Construction	155,000.00	8,300,000.00	
Other Fund and Accounts			
Unearned Revenue			
Total	(\$20,259,000.00)	\$1,351,822,000.00	\$0.00

Statement	Balance Sheet	Net Cost	Balance Sheet
	Accounts Payable:	Expenses:	Advances:
Level 3 Schedule, Part B. Intra-CFO Entity, Seller Activity, Disaggregated by Appropriation Business Activity			
Operations and Maintenance	\$388,779,000.00	\$859,165,000.00	\$0.00
Military Personnel	300,000.00	212,000.00	
Procurement	(414,343,000.00)	436,706,000.00	
Research and Development	4,850,000.00	47,439,000.00	
Military Construction	155,000.00	8,300,000.00	
Other Fund and Accounts			
Unearned Revenue			
Total	(\$20,259,000.00)	\$1,351,822,000.00	\$0.00

Other Information: The primary source of information to compute the intrafund elimination is the DD 725, Report on Reimbursements. This report breaks down all types of transactions, related to the reimbursable program, by reimbursable source codes (RSC). The RSC can be used to identify, in a broad sense, the types of customers that the reimbursable activity is servicing. The following is the RSC utilized by the DD 725:

RSC 1	Non-Federal Sources
RSC 2 & 3	Trust Funds
RSC 4	Off-Budget Federal
RSC 5	Other Defense Funds
RSC 6	Non-Defense Federal
RSC 7	Intrafund Sources

However, this does present a major shortfall since the Note 22 asks to specifically identify the customer which cannot be accomplished using the DD 725.

DFAS-CL has eliminated balances from the Balance Sheet and the Statement of Net Cost. Utilizing Intrafund (Navy to Navy) transactions level 3 elimination schedule.

The eliminations are for the Navy only.

Note 23. Other Disclosures (in Dollars and Cents):

The following table presents unmatched disbursements, negative unliquidated obligations and aged in-transit disbursements.

Navy, Treasury Index 17**Appropriations**

	<u>September</u> <u>1998</u>	<u>September</u> <u>1997</u>	<u>Change</u>	<u>Percent</u> <u>Change</u>
Unmatched Disbursements	\$2,013,883,000.00	\$3,785,805,000.00	(\$1,771,922,000.00)	(46.80%)
Negative Unliquidated Obligations	1,595,178,000.00	1,875,842,000.00	(280,664,000.00)	(14.96%)
Intransit Disbursements	3,777,835,000.00	12,750,123,000.00	(8,972,288,000.00)	(70.37%)
Total	\$7,386,897,998.00	\$18,411,770,000.00	(\$11,024,874,000.00)	(59.88%)

September 1998 Unmatched Disbursements and Negative Unliquidated Obligations included Marine Corps.

War Reserve. By direction of the Office of the Undersecretary of Defense, Comptroller (OUSDC) and DFAS-HQ War Reserve balances were removed from the balance sheet. The FY 1997 balance of \$54,589,962,000.00 was removed and shown as a prior period adjustment.

Costs Not Assigned to Programs. On the Statement of Net Cost the Department the Navy reported costs not assigned to programs. The amount relates to:

Judgment Fund	\$65,076,828.93
Retirement Benefits	217,839,788.00
Health Benefits	203,103,990.00
FEGLI	742,969.00
Total	\$486,763,575.93

Footnotes

Note 23. Other Disclosures (in Dollars and Cents): (con't)

Abnormal Balances.

Accounts Payable. The abnormal balances in accounts payable was reported as such in both the trial balance and the budgetary reports. Further investigation is to be conducted to determine the cause of the abnormal balance.

One contributing factor is that the accounts payable may be understated by balances resident in MOCAS. These balances are currently not being reported into the departmental system since it was determined that the information was unreliable. The Naval Audit Service (NAS) has developed a means of estimating the amount of accounts payable using current reports from MOCAS. This estimation is only for CFO reporting purposes only and would not be journalized into the departmental accounting system. At this time this methodology is not feasible because it does not consider amounts that have already been prevalidated and reported by STARS. Without an adjustment, a sizable number of accounts payable would be counted twice, thus overstating the accounts payable balance. DFAS-CL continues to work with other departments at the Center and DFAS-CO to identify a method for differentiating prevalidated amounts that have not been prevalidated. Until this effort is complete, MOCAS data cannot be used.

DEPARTMENT OF THE NAVY

***REQUIRED SUPPLEMENTAL
STEWARDSHIP INFORMATION***

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT For the period ending September 30, 1998 (Stated in Number of Systems or Items)

(a)	(b) <u>As Of 10/01/97</u>	(c) <u>Additions/(Deletions)</u>	(d) <u>As Of 09/30/98</u>	(e) <u>Condition % Operational</u>
<u>Categories/Major Types</u>				
1. Aircraft				
A. Combat	2,552	(32)	2,520	
B. Airlift	1,051	(13)	1,038	
C. Other Aircraft	1,063	(6)	1,057	
2. Ships				
A. Submarines	137	(14)	123	
B. Aircraft Carriers	16	2	18	
C. Surface Combatants	229	2	231	
D. Amphibious Warfare Ships	78	5	83	
E. Mine Warfare Ships	34	4	38	
F. Support Ships	238	(10)	228	
G. Other Ships	4,446	(746)	3,700	
3. Missiles				
A. Ballistic Missiles	641	(6)	635	
B. Other Missiles	56,627	(428)	6,199	
4. Combat Vehicles				
A. Tanks	377	19	396	
B. Other Tracked Combat Vehicles	1,496	20	1,516	
C. Other Combat Vehicles	3,160	(1,435)	1,725	
5. Space Systems				
A. Satellites	48	1	49	
6. Other Weapons Systems				
A. Torpedoes	7,436	1,050	8,486	
B. Other Weapons				

Other Information:

The Federal Accounting Standards Advisory Board (FASAB) changed the quantity reporting requirement late in FY 1998, after the DON Data Call had been issued, to include all National Defense PP&E, not just the major types. Full disclosure and compliance will be made in the FY 1999 National Defense PP&E reporting schedule.

The DoN cannot comply with the reporting requirement to separately report additions and deletions because existing systems used to manage National Defense PP&E were not designed to maintain such information and system modifications will have to be made to comply with the reporting requirement. Column (c) contains the difference between the beginning and ending balances.

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT (con't)

Other Information (con't)

Significant Increases / Decreases for National Defense PP&E are addressed below:

Ships: Significant procurements (ships that have had their Naval Vessel Register status changed from B (Building) to the following status: INACTIVE: Two ships. ACTIVE: Eleven ships and one submarine. Not included are eight new ships under various stages of construction.

Other Ships: Decrease of in-service boats due to ship's decommissioning and inventory management of fourteen foot punts being transferred to the Navy Inventory Control Point.

Ballistic Missiles: Forty-eight additional missiles include 32 C4 missiles excluded from the FY 1997 CFO Statements, delivery of fifteen new D5 missiles and one D5 missile transferred from the United Kingdom (UK) during FY 1998. Fifty-four ballistic missiles deleted represent thirty-one C4 missiles disposed and a transfer of fourteen D5 missiles from United States to UK inventory. Five D5 and four C4 missiles were expended for flight-test purposes.

Other Missiles: The ordnance inventory is acquired via appropriation purchase account. The conventional Ammunition Integrated Management System (CAIMS) inventory was not designed to track additions and deletions. Additions and deletions are not all-inclusive and do not provide for a linear translation from the end of one fiscal year to the end of the next fiscal year. Function improvements to CAIMS are limited due to the DoD moving towards the development of a standard ammunition management system. Twelve missiles were expended during authorized training exercise. The Tomahawk missile was added to the inventory of CAIMS during FY 1998.

Other Combat Vehicles: Fifteen Light Armored Vehicles were reported in FY 1997 as PP&E Personal Property. The expensing of these vehicles is included in the prior period adjustment in Note 18 of the Principal Statements.

The Condition/Percentage Operational requirement was received 8 December 1998 after the DoN FY 1998 Data Call was issued. The DoN was unable to report the condition/percentage operational by category/major types. Full disclosure and compliance will be made in the FY 1999 National Defense PP&E reporting schedule.

Aircraft: In addition to the September 30, 1998 ending balance of 4,615 active aircraft used in the performance of military missions as defined by the amendment to SFFASs No. 6 and No. 8 there are an additional 1,771 inactive aircraft stored at Davis Mothen Air Force Base. It is reasonably possible, although remote, some of them could be reactivated in the case of a national emergency.

Ships: The Naval Vessel Register status of the 1,868 ships and crafts reported for FY 1998 are as follows: 980 Active, 83 Military Sealift Command, 22 Loan or Lease, 26 Reserve, 3 Navy Owned, 82 Inactive, 12 Special, 549 Stricken (to be disposed of), 48 SAP Loaned or Lease, and 63 SAP Stricken (to be disposed of).

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT (con't)

Other Information (con't)

Other Ships: Thirty percent of small boats in stock are ready for issue. The remaining seventy percent in stock are not ready for issue. They need minor repairs. Most of the boats are being held as Mobilization assets.

Satellites: Sixteen of the forty-nine satellites are active.

Required Supplemental Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT AND EQUIPMENT YEARLY INVESTMENTS For the period ending September 30, 1998 (In Thousands)

<u>Categories/Major Types</u>	<u>FY 1998</u>
1. Aircraft	6,034,964
A. Combat	2,698,101
B. Airlift	239
C. Other Aircraft	355,487
D. Aircraft Support Principal End Items	2,981,137
2. Ships	7,536,699
A. Submarines	1,089,546
B. Aircraft Carriers	1,300,891
C. Surface Combatants	2,879,165
D. Amphibious Warfare Ships	752,857
E. Mine Warfare Ships	88,681
F. Support Ships	574,748
G. Other Ships	850,811
H. Ship Support Principal End Items	
3. Missiles	1,764,469
A. Ballistic Missiles	473,649
B. Other Missiles	877,178
C. Missile Support Principal End Items	413,642
4. Combat Vehicles	74,216
A. Tanks	
B. Other Tracked Combat Vehicles	74,060
C. Other Combat Vehicles	
D. Combat Vehicle Support Principal End Items	156
5. Space Systems	130,448
A. Satellites	
B. Satellite Support Principal End Items	130,448
6. Other Weapons Systems	279,359
A. Torpedoes	125,365
B. Other Weapons	47,969
C. Other Weapon Systems Support Principal End Items	106,025
10. Mission Support PP&E¹	1,792,099
11. Weapons Systems Support Real Property²	27,636

Notes:

The FASAB proposed reporting requirement for full cost disclosure was decided late in FY 1998 and there was insufficient time for DoN to implement the reporting requirement.

¹Includes ordnance support equipment, vehicular equipment, electronics equipment, and communications equipment.

²Includes ammunition bunkers and missile silos in active use as reflected in the Navy Facility Assets Data Base.

Required Supplemental Stewardship Information

HERITAGE ASSETS

For the period ending September 30, 1998

(Quantities in Actual Amounts Except for Battlefields,

Cemeteries, and Land Which Are in the Number of Sites and (Thousands of Acres)

(a)	(b) As Of 10/01/97	(c) Additions	(d) Deletions	(e) As Of 09/30/98
Collection Type				
1. Documents ¹	55,387 cu.ft.	6,296 cu.ft.	1,009 cu.ft.	60,674 cu.ft.
2. Works of Art	23,488	203	192	23,499
3. Military Artifacts	228,596	11,717	1,080	239,233
4. Non-Military Artifacts	3,757	21		3,778
5. Classic Weapon Systems	4,470	5	55	4,420
6. Other				
Total Collection Type	260,311	11,946	1,327	270,930
Non-Collection Type				
7. Historic Structures or Buildings	930	262		1,192
8. Monuments	468	50		518
9. Battlefields				
10. Cemeteries	53	1		54
11. Indian Tribal Burial Grounds				
12. Land				
13. Other	18,943			18,943
Total Non-Collection Type	20,394	313		20,707
Total Heritage Assets	280,705	12,259	1,327	291,637

¹Note: Cubic feet is the official unit of measurement for archived documents, therefore, it is not included in the total collection type.

Other Information:

One significant decrease in the classic weapons systems collection occurred during FY 1998. Fifty excess small arms were deactivated and transferred to the National Park Service for use in an exhibit at the Andersonville Prison Historic Site. The increase in the objects in the military artifact collections was through the regular tempo of small donations throughout the year.

The conditions of the objects within the collections cover the spectrum of condition codes. Items on exhibit in the Marine Corps Air-Ground Museum and Marine Corps Museum are considered to be in a most favorable or displayable present condition. Objects deemed to be no longer of historical value or not restorable are disposed of according to applicable regulations.

DoN's "other" heritage assets are known archeological sites and archeological districts that are not cemeteries or Indian Tribal Burial Grounds.

Required Supplemental Stewardship Information

STEWARDSHIP LAND For the period ending September 30, 1998 (Acres in Thousands)

<u>(a) Land Use</u>	<u>(b) As Of 10/01/97</u>	<u>(c) Additions</u>	<u>(d) Deletions</u>	<u>(e) As Of 09/30/98</u>
1. Mission	6,581	43		6,624
2. Freestanding	184,298	6,372		190,670
3. Heritage				
4. Other				
Totals	190,879	6,415		197,294

Other Information:

The DoN followed the definition of Stewardship per DoD guidance to include Public Domain, Land Set Aside, and Donated Land. The Naval Facility Assets Data Base System (NFADB) was used to derive the acres for Stewardship Land. The NFADB defines Mission Stewardship Land as improved, semi-improved and other categories of land. Freestanding land is defined as unimproved land.

Required Supplemental Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development

For the period ending September 30, 1998

(In Thousands)

<u>Categories</u>	(a)	(b)
		<u>FY</u>
		<u>1998</u>
1. Basic Research		
In-House Lab Independent Research		13,336
Defense Research Sciences		321,374
Other ¹		5,944
Subtotal		340,654
2. Applied Research		
AAW/ASW Technology		28,410
Surface Ship Technology		47,777
Aircraft Technology		23,678
Marine Corps Landing Force Technology		11,517
Command, Control & Communication Technology		53,037
Mission Support Technology		43,525
Systems Support Technology		82,101
Electronic Warfare Technology		16,963
ASW Technology		44,050
Mine & Special Warfare Technology		41,891
Ocean & Atmospheric Support Technology		67,566
Undersea Warfare Weapon Technology		28,083
Other ²		7,828
Subtotal		496,426
Grand Total		837,080

¹Program years 92-94 for the 12 programs under Applied Research were categorized as budget activity 01, Basic Research and the program expenditures for those program years 92-94 were reported on line Other under Basic Research.

²The line Other under Applied Research is a summary of various program elements which were categorized as budget activity 02 for program years 92-94.

Other Information

1. Basic Research

A. The IN-HOUSE LAB INDEPENDENT RESEARCH program supports the missions of various DON commands with high-risk/high-payoff research, responding to the DON Joint Mission Areas/Support Areas (JMA/SA) and enables the technologies that could significantly improve Joint Chiefs of Staff's Future Joint Warfighting Capabilities.

Required Supplemental Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT (con't)

Other Information (con't)

B. The DEFENSE RESEARCH SCIENCES program sustains U.S. naval scientific and technological superiority, provides new concepts and technological options for the maintenance of naval power and national security, and provides the means to avoid scientific surprise, while exploiting scientific breakthroughs.

2. Applied Research

A. The AAW/ASW TECHNOLOGY program develops new and innovative technologies which will support future weapons systems for surface and air platforms for Naval Warfare.

B. The SURFACE SHIP TECHNOLOGY program provides for surface ship, submarine, logistics, and environmental quality applied research that contributes to meeting joint warfare capabilities.

C. The AIRCRAFT TECHNOLOGY program develops technology for naval aviation, with emphasis on the demands imposed by aircraft carrier flight operations and Marine Corps amphibious and field operations relating to the Joint Mission Areas of Strike and Littoral Warfare.

D. The MARINE CORPS LANDING FORCE program develops and demonstrates, in conjunction with the Army and Air Force, those phases and technologies of amphibious operations that pertain to tactics, techniques, and equipment used by the landing force.

E. The COMMAND, CONTROL AND COMMUNICATION TECHNOLOGY program supports future command, control, communications (C³) and intelligence, surveillance & reconnaissance (ISR) systems for surface, air and space platforms and ashore for Naval Warfare.

F. The MISSION SUPPORT TECHNOLOGY program provides generic affordable technologies in support of all Joint Mission Areas/Joint Support Areas (JSA), in particular the JSAs for Readiness, Manpower and Personnel, and Training.

G. The SYSTEMS SUPPORT TECHNOLOGY program provides Applied Research to support all Navy advanced weapon and platform system concepts and needs in the areas of materials, electronics, and computer technology.

H. The ELECTRONIC WARFARE TECHNOLOGY program addresses identified technology requirements for EW in cooperation with the other Services, placing special emphasis on Naval EW roles in Information Warfare (IW).

I. The ASW Technology program is classified.

Required Supplemental Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT (con't)

Other Information (con't)

J. The **MINE AND SPECIAL WARFARE TECHNOLOGY** program provides technologies for naval mine countermeasures, sea mines, and Department of Defense (DOD) Explosive Ordnance Disposal (EOD).

K. The **OCEAN AND ATMOSPHERIC SUPPORT TECHNOLOGY** program provides the fundamental programmatic instrument by which basic research on the natural environment is transformed into technological developments that provide new or enhanced warfare capabilities.

L. The Undersea Warfare Weapon Technology is classified.

Note: The DON received requirement and guidance for reporting "Investment in Research and Development on December 8, 1998. This requirement was received after the DON data call was released and responses to the data call received. The DON is not able to report the "inputs" and "outcomes" for the identified programs.

Required Supplemental Stewardship Information

NONFEDERAL PHYSICAL PROPERTY: Not Applicable

Yearly Investment in State and Local Governments

For the period ending September 30, 1998

(In Thousands)

<u>Categories</u>	<u>(a) FY CY - 4</u>	<u>(b) FY CY - 3</u>	<u>(c) FY CY - 2</u>	<u>(d) FY CY - 1</u>	<u>(e) FY CY</u>
1. National Defense Mission Related					
2. Environmental Improvement					
3. Base Closure and Realignment					
4. Other					
Total					

Other Information:

DEPARTMENT OF THE NAVY

***SUPPLEMENTAL FINANCIAL
AND MANAGEMENT
INFORMATION***

Supplemental Information _____

Supplemental Information

Financial statement attributes represent core DoD financial performance measures used to analyze financial results and trends affecting the overall health and position of the Department of the Navy's programs. Identified are five agency attributes: Operating Cost Attribute, Operating Results Attribute, Financial Obligations Attribute, Financial Condition Attribute, and the Operating Efficiency Attribute. These attributes form the focus of our financial statement analysis. Cross-sectional analyses are presented comparing similar attributes for the Department of the Navy's programs as reported in the Statement of Net Cost. These programs are Operations and Maintenance; Military Personnel, Procurement; Research, Development, Test and Evaluation; Military Construction; and Other related programs.

Operation and Maintenance (O&M) program areas include the costs for both Navy and Marine Corps that pay for the day-to-day operations and maintenance. The costs cover broad areas such as the operating forces; mobilization; training and recruiting; and administration and servicewide activities. More specifically, the O&M program area funds pay for salaries and fringe benefits for civilians; contractors for maintenance of equipment and facilities; fuel, supplies, and repair parts for weapons; and equipment. It includes costs that support the Navy and Marine Corps Reserve activities, ships and aircraft.

The Military Personnel program provides for the pay, allowances, clothing, and permanent change of station moves for active duty Navy and Marine Corps personnel. The Military Personnel program also provides for pay, allowances, clothing, per diem, travel and other related costs for Navy and Marine Corps Reserve personnel.

The Procurement program costs include procurement of the National Defense Property, Plant, and Equipment (PP&E) that includes aircraft, weapons, and shipbuilding and conversion. The costs for procurement of ammunition for both the Navy and the Marine Corps and procurement of other equipment may or may not be categorized as National Defense PP&E.

The Research, Development, Test and Evaluation program includes costs for scientific research, development, test and evaluation of new and improved weapons systems and related equipment for both Navy and the Marine corps. The costs include basic research, exploratory and advanced development, demonstration and validation of technologies, engineering and manufacturing development, management support, and operational system development.

The costs for the Military Construction program include construction, conversion or improvement of permanent or temporary facilities and public works including land acquisition, site preparation, utilities, and integral equipment supporting the active forces of the Navy and Marine Corps. Also included are costs for military construction for reserve forces.

The Other program costs include payments for special environmental activities, construction portion of family housing, and the various trust funds that include the U.S. Naval Academy General Gift and Museum Funds.

Supplemental Information _____

Supplemental Information

Entity Accounts:

General funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps (fiscal year)
17 0810	Environmental Restoration, Navy (fiscal year)
17 1105	Military Personnel, Marine Corps (fiscal year)
17 1106	Operation and Maintenance, Marine Corps (fiscal year)
17 1107	Operation and Maintenance, Marine Corps Reserve (fiscal year)
17 1108	Reserve Personnel, Marine Corps (fiscal year)
17 1109	Procurement, Marine Corps (fiscal year)
17 1205	Military Construction, Navy (fiscal year)
17 1235	Military Construction, Naval Reserve (fiscal year)
17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X1319	Research, Development, Test and Evaluation, Navy
17 1319	Research, Development, Test, and Evaluation, Navy (fiscal year)
17 1405	Reserve Personnel, Navy (fiscal year)
17 1453	Military Personnel, Navy (fiscal year)
17 1506	Aircraft Procurement, Navy (fiscal year)
17 1507	Weapons Procurement, Navy (fiscal year)
17 1508	Procurement of Ammunition, Navy and Marine Corps (fiscal year)
17X1611	Shipbuilding and Conversion, Navy
17 1611	Shipbuilding and Conversion, Navy (fiscal year)
17 1804	Operation and Maintenance, Navy (fiscal year)
17 1806	Operation and Maintenance, Navy Reserve (fiscal year)
17 1810	Other Procurement, Navy (fiscal year)
17X3980	Navy Management Fund

Revolving funds

17X4557	National Defense Sealift Fund, Navy
17 4557	National Defense Sealift Fund, Navy (fiscal year)

Trust funds

17X8008	Naval Historical Center Fund (formerly Office of Naval Records and History Fund)
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship's Stores Profits, the Navy
17X8730	United States Naval Academy Museum Fund
17X8733	United States Naval Academy General Gift Fund

Supplemental Information

Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account
17 5429(001)	Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts

Special funds (Receipt Accounts)

17 3041	Recoveries under the Foreign Military Sales Programs
17 3210	General Fund proprietary Receipts, Defense Military, Not Otherwise Classified
17F3875	Budget Clearing Account (Suspense)
17F3878	Budget Clearing Account (Deposits)
17F3879	Undistributed and Letter of Credit Differences (Suspense)
17F3880	Unavailable Check Cancellations and Overpayments (Suspense)
17F3886	Civilian Thrift Savings Plan

Special funds

17X3885	Undistributed Intra-Governmental Payments, Navy
17X9082	Intra-Budgetary Transactions-Trust Funds National Defense

Deposit funds

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps, Deposit Fund
17X6050	Employees Payroll Allotment Accounts (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for payment of Employee Organization dues, Navy
17X6083	Withheld Allotment of compensation from Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotments Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

Supplemental Information

OPERATING COSTS ATTRIBUTE

The Operating Costs Attribute represents how much it costs to operate a program. This information is useful for planning, budgeting, and cost control purposes.

FY 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDT&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Total Costs	24,902,493	25,502,621	17,594,844	7,928,509	1,904,554	1,181,784	78,914,805
Revenue & Reimb	315,758	4,057,722	882,173	(201,594)	399,264	22,161	5,475,484
Net Operating Cost FY 98	24,588,735	21,444,898	16,712,671	8,130,103	1,405,290	1,159,623	73,439,321
Net Operating Cost FY 97	24,589,553	24,482,525	5,296,838	7,608,804	65,005	6,920	62,033,643
Net Operating Change	(6,818)	(3,017,627)	11,445,835	521,299	1,340,285	1,152,703	11,405,678
Annual Percentage Change	-0.03%	-12.34%	215.52%	6.85%	2061.82%	-16,857.56%	18.39%

Supplemental Information

OPERATING RESULTS ATTRIBUTE

The Operating Results Attribute identifies when a program's operations result in an excess of revenues over expenses and appropriations or vice-versa.

FY 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDT&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Revenues							
Appropriations Realized	24,386,079	21,315,493	16,862,524	8,130,103	784,456	669,785	72,138,439
Reimbursable Revenue	315,758	4,057,722	882,173	(201,594)	399,264	22,161	5,475,484
Other Revenue & Financing Sources	0	0	0	0	0	0	0
Total Revenues	24,701,836	25,373,215	17,744,698	7,928,509	1,183,720	681,946	77,613,924
Expenses & Losses							
24,902,493	25,502,621	17,594,844	7,928,509	1,804,554	1,181,784	78,914,805	
Net Operating Results	(200,657)	(129,406)	149,854	0	(620,834)	(499,838)	(1,300,881)

FY 1997

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDT&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Revenues							
Appropriations Realized	24,592,850	24,462,525	5,297,539	7,608,804	65,005	10,540	62,037,263
Reimbursable Revenue	315,717	3,152,880	722,269	441,994	467,114	22,527	5,122,501
Other Revenue & Financing Sources	0	0	0	0	0	910,190	910,190
Total Revenues	24,908,567	27,615,405	6,019,808	8,050,798	532,119	943,257	68,069,954
Expenses & Losses							
24,908,567	27,615,405	6,019,808	8,050,798	532,119	539,637	68,066,334	
Net Operating Results	0	0	0	0	0	3,620	3,620

Supplemental Information

FINANCIAL OBLIGATION ATTRIBUTE

The Financial Obligation Attribute represents the liabilities that a program incurs in its operations or asset acquisitions. The current ratio indicates the program's ability to pay its obligations that will be due within a year.

FY 1998

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDT&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Total Current Assets	2,322,622	9,441,515	43,132,959	4,367,443	1,249,845	2,637,874	63,152,259
Total Current Liabilities	1,368,267	(2,494,430)	748,834	(46,771)	52,163	138,929	(233,007)
Current Ratio	1.70	11,935,945	57.60	4,414,214	23.96	18.99	(271.03)
Total Quick Assets	2,322,622	9,441,515	43,132,959	4,367,443	1,249,845	2,637,882	63,152,217
Total Current Liabilities	1,368,267	(2,494,430)	748,834	(46,771)	52,163	138,929	(233,007)
Acid Test Ratio	1.70	11,935,945	57.60	4,414,214	23.96	18.99	(271.03)

FY 1997

	<u>Military Personnel</u>	<u>Operation & Maintenance</u>	<u>Procurement</u>	<u>RDT&E</u>	<u>Military Construction</u>	<u>Other Programs</u>	<u>Total</u>
Total Current Assets	2,184,364	10,664,094	47,528,679	4,872,884	1,333,739	1,887,770	68,471,530
Total Current Liabilities	2,913,679	1,758,741	911,429	118,405	71,342	429,293	6,202,889
Current Ratio	0.75	6.06	52.15	41.15	18.70	4.40	11.04
Total Quick Assets	2,184,364	10,664,094	47,522,471	4,872,884	1,333,739	1,887,727	68,465,279
Total Current Liabilities	2,913,679	1,758,741	911,429	118,405	71,342	429,293	6,202,889
Acid Test Ratio	0.75	6.06	52.14	41.15	18.70	4.40	11.04

Supplemental Information

FINANCIAL CONDITION ATTRIBUTE

The Financial Condition Attribute shows the ability to generate financial resources to maintain operations and to meet financial obligations, when they are due, without considering financial assistance.

Supplemental Information

OPERATING EFFICIENCY - ASSET MANAGEMENT

The Operating Efficiency Attribute relates performance of a program in terms of what it accomplished to the resources it consumed.

FY 1998

Procurement (Appn 4557)

Cost of Goods Sold	1,206,524
Average Inventory	0
Inventory Turn Ratio	
or in Days	
Sales Revenue	168,747
Daily Accounts Rec.	3,277
Average Rec. Turn Ratio	
or in Days	
OP Cycle=Inv. Turn Day	58
+Acct Rec Turn Day	58

FY 1997

Procurement (Appn 4557)

Cost of Goods Sold	227,429
Average Inventory	0
Inventory Turn Ratio	
or in Days	
Sales Revenue	227,429
Daily Accounts Rec.	3,684
Average Rec. Turn Ratio	
or in Days	
OP Cycle=Inv. Turn Day	62
+Acct Rec Turn Day	62

Supplemental Information

Supplemental Information

Department of Defense
Department of the Navy
SUPPORTING CONSOLIDATING BALANCE SHEET
For the period ending September 30, 1998
(in Dollars and Cents)

	Military Personnel	Operation & Maintenance	Procurement	RDT&E	Military Construction	Other Programs	Total
ASSETS							
1. Entity Assets:							
A. Intragovernmental							
1. Fund Balance with Treasury (Note 2)	\$2,084,057,115.41	\$8,392,464,842.29	\$41,359,954,025.34	\$4,299,387,233.00	\$1,193,646,120.00	\$1,065,675,935.75	\$58,395,185,371.79
2. Investments, Net (Note 4)	73,258,207.11	1,040,983,572.54	986,070,061.37	52,472,124.00	51,029,224.00	9,758,652.61 (1,056,511.64)	9,758,652.61 2,212,756,677.38
3. Accounts Receivable, Net (Note 5)							
4. Other Assets (Note 5)							
B. Total Intragovernmental	\$2,157,315,322.52	\$9,433,446,414.83	\$42,356,024,086.71	\$4,351,859,457.00	\$1,244,675,344.00	\$1,074,378,076.72	\$60,617,700,701.71
C. Investments, Net (Note 4)							
D. Accounts Receivable, Net (Note 5)	156,638,547.84	8,066,657.80	776,935,384.36	15,583,379.00	5,169,757.00	1,363,453,953.00	2,525,847,679.00
E. Loans Receivable and Related Foreclosed Property, Net (Note 7)							
F. Cash and Other Monetary Assets (Note 3)	8,668,288.58						8,668,288.58
G. Inventory and Related Property, Net (Note 8)		55,745,962.33	6,955,029,234.00		17,594,346,261.42	42,190.00 13,534,232,032.46	42,190.00 38,139,353,490.21
H. General Property, Plant and Equipment (Note 9)							
I. Stewardship Assets (National Defense PP&E,etc.)	63,932,876.66		2,872,575,129.29				
J. Other Assets (Note 6)		(241,483.71)					
K. Total Entity Assets	\$2,386,555,035.61	\$9,497,019,551.25	\$52,961,564,134.36	\$4,367,442,936.00	\$18,844,191,362.42	\$16,172,106,261.18	\$104,227,879,180.81
2. Non-Entity Assets:							
A. Intragovernmental							
1. Fund Balance with Treasury (Note 2)	19,169,177.11	(18,861,747.46)	8,760,128.18	(22,383,277.88)		(170,712,446.98)	(151,543,371.97)
2. Accounts Receivable, Net (Note 5)	2,240,270.62	397,932,390.39	(518,861,747.46)	\$6,760,128.18		(1,014,453)	367,986,749.00
3. Other Assets (Note 6)							
B. Total Intragovernmental	\$2,240,270.62	\$417,101,567.40					
C. Accounts Receivable, Net (Note 5)	4,789,174.07	(10,838,330.86)	454,960.27	6,389,264.87	231,071.21	1,000.00	1,027,139.56
D. Cash and Other Monetary Assets (Note 3)							
E. Other Assets (Note 6)							
F. Total Non-Entity Assets	\$7,029,444.69	\$406,263,236.54	(518,452,109.89)	\$15,149,393.05	(\$22,152,206.67)	(\$38,774,916.60)	(\$45,322,70)
3. Total Assets	\$2,393,584,480.29	\$9,903,282,787.79	\$52,942,112,024.47	\$4,382,592,229.05	\$18,822,039,155.75	\$16,133,331,244.58	\$104,576,942,021.93

The accompanying notes are an integral part of these statements.

Supplemental Information

**Department of Defense
Department of the Navy
SUPPORTING CONSOLIDATING BALANCE SHEET
For the period ending September 30, 1998
(in Dollars and Cents)**

LIABILITIES	Military Personnel	Operation & Maintenance	Procurement	RDT&E	Military Construction	Other Programs	Totals
4. Liabilities Covered by Budgetary Resources:							
A. Intragovernmental							
1. Accounts Payable	105,943,244.46	744,800,845.11	(1,251,246,382.81)	(285,670,94)	11,869,410.89	61,692,234.02	(327,226,319.27)
2. Environmental Cleanup (Note 11)							
3. Debt (Note 10)	9,738,973.60	379,236,841.59	(18,872,338.46)	8,760,128.18	(6,987,254.79)	(38,774,901.75)	333,101,448.37
4. Other Intragovernmental Liabilities (Notes 11 and 12)	\$115,682,218.06	\$1,124,037,686.70	(\$1,270,118,721.21)	\$8,474,557.24	\$4,822,156.10	\$22,517,332.27	\$5,875,129.10
B. Total Intragovernmental	\$55,030,916.13	(3,401,216,954.26)	(380,194,831.82)	(46,485,365.82)	40,293,544.11	77,237,102.69	(3,160,315,588.97)
C. Accounts Payable							
D. Liabilities for Loan Guarantees							
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)							
F. Environmental Cleanup (Note 11)							
G. Other Liabilities (Notes 11 and 12)							
H. Total Liabilities Covered by Budgetary Resources:	1,129,737,292.27	245,308,106.11	454,960.27	6,703,456.63	231,071.21	\$100,154,434.96	1,382,434,886.49
	\$1,195,470,476.46	(\$2,031,871,161.45)	(\$1,649,858,592.82)	(\$31,307,451.95)	\$45,406,771.42	\$1,772,005,573.36	
5. Liabilities Not Covered by Budgetary Resources:							
A. Intragovernmental							
1. Accounts Payable	15,467,888.77	25,162,297.14	41,862,489.11	(858,626.21)	103,051.11	626,357.82	82,364,457.74
2. Debt (Note 10)							
3. Environmental Cleanup (Note 11)	5,968,240.08	34,796,691.34	10,591.00	(\$858,626.21)	\$103,051.11	(\$14,85)	40,775,734.57
4. Other Liabilities (Notes 11 and 12)	\$21,436,128.85	\$59,960,215.48	\$41,873,080.11	(\$858,626.21)	\$103,051.11	\$626,342.97	\$123,146,192.31
B. Total Intragovernmental	92,295,616.35	87,925,716.73	(224,812,321.63)	6,838,186.72	(1,947,517.07)	1,311,815.96	(38,388,301.94)
C. Accounts Payable							
D. Debt (Note 10)							
E. Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 13)							
F. Environmental Cleanup (Note 11)							
G. Other Governmental Liabilities (Notes 11 and 12)	1,048,197,389.46	910,107,173.18	1,336,819,404.93	155,978,515.76	(13,652,385.50)	1,197,782,974.37	1,213,674,000.00
H. Total Liabilities Not Covered by Budgetary Resources	\$1,161,929,134.66	\$1,057,993,105.39	\$1,153,080,164.41	\$161,958,076.27	\$15,496,651.46	\$17,594,346,261.42	\$8,843,100,000.00
6. Total Liabilities	\$2,997,399,561.12	(\$973,878,056.06)	(\$495,978,428.41)	\$130,650,624.32	\$29,908,919.96	\$7,158,866,593.89	\$8,806,970,214.82
NET POSITION							
7. Unexpended Appropriations (Note 14)	424,588,370.18	11,165,177,451.31	46,715,419,430.14	4,251,941,604.73	1,197,782,974.37	2,477,858,874.69	66,232,766,705.42
8. Cumulative Results in Operations	(\$98,403,451.01)	(\$288,016,607.46)	6,722,671,022.74	\$4,251,941,604.73	\$18,792,129,235.79	6,496,605,876.00	29,537,203,101.69
9. Total Net Position	(\$563,815,080.03)	\$10,877,160,843.85	\$3,438,090,432.88	\$4,251,941,604.73	\$8,974,464,750.69	\$95,769,971,807.11	
10. Total Liabilities and Net Position	\$2,393,584,480.79	\$9,913,282,787.79	\$52,942,112,024.47	\$4,382,592,729.05	\$18,822,039,155.75	\$16,133,331,344.58	\$104,576,942,021.93

The accompanying notes are an integral part of these statements.

Supplemental Information

Department of Defense

National Defense Sealift Fund

SEGMENT INFORMATION

For the period ending September 30, 1998

PART A. The National Defense Sealift Fund (NDSF) provides for the construction, purchase, alteration, and conversion of the Department of Defense (DoD) sealift vessels; operations and maintenance and lease or charter of DoD vessels for national defense purposes. The fund is also involved with the installation and maintenance of defense features on privately owned and operated vessels that constructed in the United States.

PART B.

	FY
	1998
1. Fund Balance with Treasury	\$2,209,823,578.00
2. Accounts Receivable	765,430,713.00
3. Property, Plant, and Equipment	00.00
4. Other Assets	00.00
5. Liabilities Due and Payable for Goods and Services Received	(1,526,765,836.00)
6. Deferred Revenue	00.00
7. Other Liabilities	00.00
8. Cumulative Results of Operations	00.00

PART C.

1. Full Cost of Goods and Services Provided	\$1,639,352,597.00
2. The Related Exchange Revenue	621,576,080.00
3. The Excess of Cost Over Exchange Revenue	1,017,776,517.00

Audit Team Audit Team Members

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